

CREDIT

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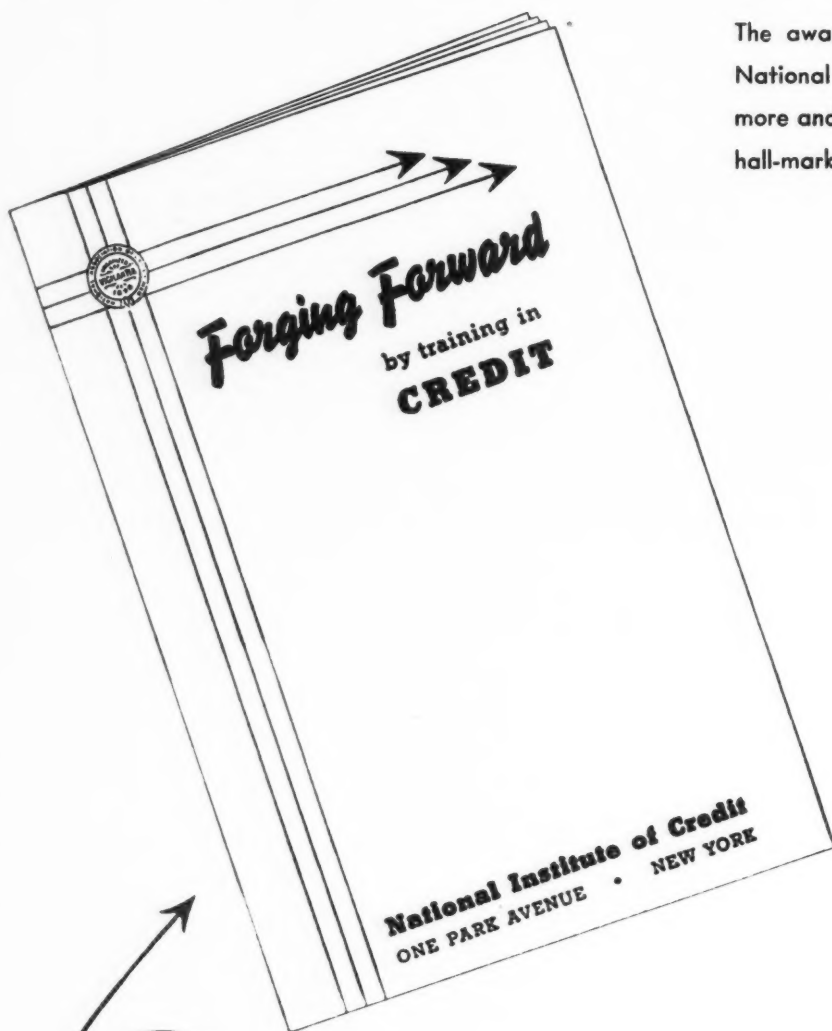
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CREDIT

and Financial Management

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Planning for Peace

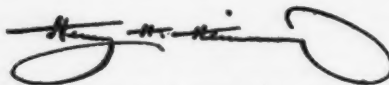
OF Some people contend that to devote any time to post-war planning now means a let-up in our present war efforts. We have a hard war to win and nothing, they say, should divert our attention from winning it. Others maintain a victory on the field of battle could easily be lost through a post-war failure. This group contends post-war planning is necessary now as a parallel program to our war effort.

It would seem men and women could and should give thought to the post-war program even while the war is in progress. In recent weeks an increasingly large number of government agencies, private businesses and citizens have been doing so without neglect to the war effort. It can be safely assumed that every individual in the armed services, including those engaged on the field of battle, are planning and thinking of the days of peace. No one would contend that because they plan and think of what they will do after the war, that they are neglecting their part in the fight. On the contrary, because they wish these plans to materialize as quickly as possible, they are undoubtedly giving the very best of their efforts to insure an early victory.

The post-war situation in this country will depend much upon the way in which we convert from a war to a peace-time basis. General world conditions are such that our post-war period need not be too difficult. Whether it will be, depends entirely upon how we effect the conversion.

Since the termination of war contracts is the keystone of any conversion program and since the methods and the principles utilized to terminate war contracts will largely determine our post-war future, next to the actual winning of the war this subject is the most important one confronting the American people. Business asks no special favors when it comes time for the termination of war contracts but if it is to play its part in the post-war period it must be ready and capable of making a quick conversion.

It is to the interest of the nation that every government procurement agency, every business organization and, in fact, every citizen do everything in their power to procure a constructive policy for equitable and speedy liquidation of war contracts upon their termination. The immediate future of the country in the post-war period will depend upon it.



Henry H. Heimann

For that Invasion you've wanted

As our armed forces smash against the Fortress of Europe, the least *we* can do is to give them our fullest measure of support by providing funds to pay for the planes, guns, tanks they need.

Remember, this is the Invasion you and all other Americans have been hoping for and asking for. But Invasion requires a lot of money. And now in this month of September our Government is faced with the colossal task of borrowing 15 billion dollars in the 3rd War Loan. As individuals all of us must invest to the *limit* — all we can spare will not be enough.

As to its own participation, The Home Insurance Company is glad to say that —

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War Department Issues Manual for Settlement of Terminated Contracts

CREDIT AND FINANCIAL MANAGEMENT, Dundas Peacock, Controller of The Elliott Company of Jeannette, Pa., emphasized "the need for preparation, before the end of the war, for prompt and equitable settlement of terminated war contracts." He pointed out further that "definition be made of acceptable methods of determination that would be acceptable to the Government and would return to the contractor his real investment in the contract. This task which will have to be done some day, should be done in advance, so as to avoid delays in converting to peacetime production. The advance definition of such acceptable methods will accord war contractors the opportunity to study the methods prescribed before the problem becomes acute and if necessary to make changes in their accounting systems in order to comply therewith." Late in August the War Department issued Purchase Regulation No. 15, which it is hoped, will in general provide most of the "advance definitions" urged by Mr. Peacock in his article in this magazine. Reports from Washington indicate that the other War Procurement Agencies are at work on regulations to accomplish the same general purposes.

Purpose of New Regulation

IN announcing that the Purchase Regulation No. 15 had been issued the War Department said:

"To assure fair, equitable and prompt settlement of contracts terminated because of shifting military requirements, the War Department today issued Procurement Regulation No. 15 giving full instructions as to the method to be followed when contracts are cancelled.

"The regulation furnishes to Government contracting officers and to contractors directions as to the basis upon which a prompt determination and payment of the amounts due to contractors will be made whenever war contract terminations are necessary. For the assistance of contractors and Government audit personnel, an accounting manual will also be issued within a few days. This will govern the preparation of cost information for use in negotiating termination settlements.

"Although Procurement Regulation No. 15 has been prepared primarily for the immediate assistance of Government personnel, its publication at this time should serve also to reassure business that it is the War Department's intention to deal fairly with all contractors

whenever it is necessary to terminate a war production contract. The regulation will be published in the *Federal Register* and will be available for reprint."

Contractors Fear Termination

ARMV officials have been quoted as saying "we have suffered some loss in production, and undoubtedly some of that may be due to a certain amount of uneasiness about this termination situation."

"It is of first importance to the question of procurement," said one of them, "that we take every step possible to put the minds of our contractors and subcontractors at rest as to what is going to happen to them. There is an obvious effect on the financial condition of the contractor which follows termination. Unless some method can be found to get in some cash quickly he cannot take on more war business."

One of the important features in Procurement Regulation No. 15 is that it sets up accounting guides for the use of contracting officers which in turn will also guide contractor. This memorandum of accounting is covered in Chapter IV of the Regulation under the general title "Accounting Guides to a Negotiable Settlement." This section sets forth that the contractor's proposal for a settlement should consist of three basic statements covering the following charges:

1. The costs incurred directly by the contractor with the related profit, if any.
2. The charges of his subcontractor.
3. The costs incurred by the contractor subsequent to the date of termination.

Two Proposals of Settlement

IN Section 404, the Manual states: "When the contractor's statement is prepared on the inventory basis it should be in substantially the following form:

Statement of.....
(name of contractor)

Contract No.....
Effective Date of Termination.....

Date of Statement.....
Statement of costs incurred on uncompleted work as of date of termination (exclusive of subcontractors' claims for uncompleted work and exclusive of costs incurred subsequent to date of termination).

1. Raw materials on hand.....\$
2. Purchased parts
3. Work in process.....

4. Tools, dies, jigs and fixtures not amortized
5. Administrative expenses
6. Other costs (submit detail).....
7. _____
8. _____
9. TOTAL\$
10. Contactor's profit for work done prior to termination, if any\$
11. _____
12. Total amount (exclusive of subcontractors' claims and exclusive of costs incurred after date of termination).....\$

When the statement is based on the contractor's total cost basis, the statement should be in the following form:

Statement of.....
(name of contractor)

Contract No.....

Statement of total costs incurred on contract to date of termination (exclusive of subcontractors' claims for uncompleted work and exclusive of costs incurred subsequent to date of termination).

Direct charges

1. Direct materials\$
2. Direct labor
3. Other direct charges.....
4. _____

Prorated charges

5. Indirect factory expenses.....
6. Administrative expenses
7. Other prorated expenses.....
8. _____

9. TOTAL COST\$

10. Contractors' profit for work done prior to termination, if any

11. _____

12. TOTAL\$

13. Deduct total units completed at contract price

14. Total amount (exclusive of subcontractor claims and exclusive of costs incurred after date of termination).....\$

Termination Accounting Manual

IT should be noted in this connection that the Office of the Fiscal Director, Headquarters, Army Service Forces, has published a Termination Accounting Manual and fixed Price Supply Contracts, and that this Termination Accounting Manual will govern all settlements made under terminated contracts.

One of the points in which the majority of credit executives will be especially interested is that the regu-

lation provides is prompt settlement by prime contractor with all subcontractors and suppliers.

The regulation points out that under the standard termination article for lump sum, contractors, subcontractors and suppliers have no direct rights against the government upon the termination of a prime contract for the convenience of the government. The rights of such subcontractors and suppliers are against the prime contractor, or intermittent subcontractor who is directly obligated to them on the subcontract or purchase order which they hold. The extent of these rights will generally depend upon the terms of the subcontract or purchase order in question.

However, the regulation provides that the prime contractor is required to "cancel all existing orders chargeable to this contract and terminate all subcontracts chargeable to this contract except as directed otherwise by the contracting official." This obligation of the contractor should be performed immediately upon receipt of the notes of termination. Settling with the subcontractors and suppliers then becomes an obligation and responsibility of the contractor subject to the approval of settlements by the contracting official.

Under the heading "Rights of Subcontractors" we find the following: Under Section 325.3, Subsection (6) under the general heading "Action to Be Taken by Prime Contractors with Respect to Settlement of Subcontracts."

"That a proper settlement of each subcontract and purchase order is negotiated with all possible speed and promptly presented to the contracting officer for approval."

The Manual goes on to show what kind of inventory is being presented, subcontractors' charges, a statement of advance payments, and the form of certificate to be used by prime contractors when presenting statement as well as the form for comments to be set forth by subcontractors and material suppliers.

Major Victor Z. Brink, Headquarters, Army Service Forces of the War Department, recently made a talk before the Internal Auditors Association on the objects of the War Department in issuing what is now called Purchase Regulation No. 15. Major Brink, who had a long record of leadership in the accounting field before he was commissioned in the Army, told the Internal Auditors that his remarks were entirely his own and are not to be interpreted as official explanation of War Department views or policies.

Types of Terminations

THERE are essentially two types of contracts used in the War Department—the cost-plus-a-fixed-fee type and the fixed-price type. The accounting problems arising out of the termination of each type differ materially. In the case of the cost-plus-a-fixed-fee type of contract the problem is much the same from an accounting standpoint as if the contract were actually completed. The contractor has been reimbursed for his costs and the Government will continue to reimburse him in the same manner for any costs which he has not presented at time of termination and in addition for costs properly incurred in winding up the settlements with subcontractors, disposing of inven-

tories, and the like. There will of course be certain additional procedures necessary to cover such matters as the closing of bank accounts, disposition of unclaimed deposits of employees, and final settlement of overhead. The general pattern is, however, fairly definite and since we will usually have our auditors already on the ground auditing current reimbursements, it would seem that we are for the most part ready for this problem.

"The termination of the fixed-price contract is quite different. The contractor has been, or will be, reimbursed at the contract price for units properly completed but no similar fixed-price is available for making settlement on the uncompleted portion of the contract. It is obvious that the contractor's costs must constitute, directly or indirectly, the basis of determining the settlement for the uncompleted portion but this raises difficult problems of how those costs shall be determined. Of further significance is the fact that there has been no previous consideration of those costs by Governmental personnel except in certain cases where some analysis may have been made as a basis for arriving at prices to be used in the contract. It is evident therefore that the fixed-price contract terminations involve the more complex problems in the way of determining equitable settlements in a prompt manner and our attention in the War Department is at the present time being directed chiefly to this type of termination. My own comments will therefore deal with fixed-price contract terminations.

Contractual Basis for Fixed-Price Contract Terminations

"THE contractual basis for the termination of a fixed-price supply contract is the termination clause. The War Department has prescribed a standard clause which, aside from minor exceptions, is to be included in all fixed-price prime contracts. In the case of contracts drawn prior to the development of the above mentioned clause, provision is made for amending those contracts to incorporate the new clause.

"In this clause the right of the Government to terminate the contract is set forth and the duties of the contractor and the contracting officer—the party acting for the Government—are indicated. The duties of the contractor are in brief:

"(1) to discontinue all operations under the contract (except as the contracting officer directs otherwise) and to terminate all such contracts;

"(2) to transfer, as directed by the contracting officer, all completed and uncompleted units and other supplies;

"(3) to take such action as may be necessary to protect the Government's rights under subcontracts and

"(4) to dispose of the inventory by sale to outsiders, retention by himself or otherwise at prices approved by the contracting officer.

The Basis of the Settlement

"THE Government on the other hand agrees to pay the contractor the contract price for all finished units for which payment has not previously been made. In addition, but without duplication of the fore-

going payments, the Government agrees to pay—and here I quote—

"such sum as the contracting officer and the contractor may agree by supplemental agreement is reasonably necessary to compensate the contractor for his costs, expenditures, liabilities, commitments, and work in respect to the uncompleted portion of the contract so far as terminated by the notice referred to in paragraph (a). The contracting officer shall include in such sum such allowance for anticipated profit with respect to such uncompleted portion of the contract as is reasonable under all the circumstances."

"This part of the clause is of special significance because by defining the payment as 'such sum as the contracting officer and the contractor may agree by supplemental agreement is reasonably necessary to compensate the contractor,' it authorizes what may be referred to as a negotiated settlement. It is this negotiated aspect of the settlement which gives the contracting officer some freedom of action and which eliminates the necessity of tying the settlement exactly to a specific presentation of documented costs. In this connection the negotiated settlement is essentially different from the cost-plus-a-fixed-fee type of contract where reimbursement is in exact accordance with the costs supported in each case by such evidence of payment and other supporting documents as will meet the requirements of the General Accounting Office.

"The negotiated settlement is the heart of the termination clause and it is expected that all or practically all settlements will be made on this basis. This form of settlement is in effect the adaptation of 'good business practice to Governmental purposes and is based on the legal principle that when various claims and counter claims exist between two contracting parties—especially when the claims are not susceptible of exact determination, the contracting parties may compromise and settle those claims and establish a final net amount which merges all claims into one single legally enforceable obligation to pay the sum thus arrived at. It is believed that the development of this basis for making settlement will be a major factor in making possible the speedy and equitable settlements which are so much needed.

In Case of Disagreement

"THE termination article goes on to provide that if after 90 days, or such period as the contracting officer may designate, an agreement cannot be reached, the settlement shall be made in accordance with a prescribed formula which is there set forth and which specifies the types of costs and the manner in which the profit allowed is to be computed. The interpretation of the terms of this formula may, it is believed, lead to considerable delay and possible litigation. It opens up possible requirements for supporting costs with documentary evidence and in general sets the stage for more cumbersome settlements. It is again for these reasons that it is so desirable from both the contractor's and Government's standpoint to settle under the negotiated clause. In either case the termination article also provides that:

"The Government shall pay to the contractor such sum as the contracting officer and the contractor may agree upon for expenditures made and costs incurred with the approval of the contracting officer (a) after the date of termination for the protection of Government property, and (b) for such other expenditures and costs as may be necessary in connection with the settlement of this contract, and in the absence of such agreement as to the amount of such expenditures and costs shall reimburse the contractor for the same."

"In the case of subcontracts the settlement will depend on the terms of the individual subcontract and there has been no standard prescription of a termination clause for such use. In all cases, however, the negotiated settlement is available in accordance with the legal principles indicated above and it is therefore probable that all subcontractor claims will be settled on a negotiated basis. Inasmuch as the Government is not directly one of the contracting parties, there is no specific clause necessary such as was included in the prime contracts.

Functions of the Contracting Officer

"AS soon as practicable after the date of termination it is the contractor's responsibility to prepare and submit his proposed settlement. His statement (see PR 372.2) should set forth the various elements upon which he is proposing a settlement and should include supporting schedules and explanations of the bases of calculation. It is then the contracting officer's responsibility to negotiate a settlement with the contractor. In passing upon the accuracy and general reliability of the various elements listed in the proposed settlement he will require the technical assistance of qualified accounting personnel. These latter persons act in an advisory manner and the contracting officer is not bound by the findings or conclusions of the accountants. While the contracting officer has the right to decide when he wants audits or other technical services of Governmental accounts, it should be pointed out that the manner in which such examinations or reviews are carried out will be determined by the accountant in an independent fashion based upon his own technical knowledge.

"As a practical matter it is expected that contracting officers will lean heavily on the services of accounting personnel whether they be those of Governmental personnel, contractor's personnel, or independent public accountants employed by contractors. In the settlements thus far recessed by the various Governmental agencies, the value of accounting services has been amply demonstrated. In all cases an office review by Governmental personnel would appear to be necessary and the accountant's findings in that review will be an important guide to the contracting officer as to the need for audits. With respect to all accounting reports it is also expected that they will be an important guide for the contracting officer.

Settlement on an Overall or Inventory Basis

"WHERE a contract has been terminated before any units have been completed the determination of the costs applicable to the uncompleted portion re-

quires no segregation of costs. There is obviously no problem other than to summarize the allowable costs incurred under the contract. Where, however, there have been units completed a difficult problem does arise as to how the costs applicable to the uncompleted portion will be determined. It is here that one of two methods may be employed, depending upon the circumstances involved.

"In situations where production under the contract is well along and an adequate cost accounting system is in operation it may be possible to obtain an accurate segregation of total costs incurred as between the completed and uncompleted portions of the contract. In that event the proposed settlement may be based upon inventories, taken and priced in detail. To these costs may then be added an allowance for profit. In other situations great difficulties will be encountered in making an accurate segregation of costs. This will be especially true where there has been very little production under the contract or where for other reasons the operations are so complex and the cost accounting so inadequate that no sound basis exists for pricing the work in process inventories. Where these conditions prevail the Manual provides for the presentation of costs on a total cost basis. Under this latter method all of the allowable costs incurred to date of determination are summarized. To this cost base is added an allowance for profit and from that total deducted any payments made, or to be made, for completed units.

"The allowance for profit in the case of both the inventory and overall methods will be in accordance with a rate negotiated between the contracting officer and the contractor. In negotiating that rate consideration should be given to the contractor's indicated rate. This is the rate which, based on all of the data available, it is expected the contractor would have earned on the contract as a whole had he been permitted to complete the contract. The indicated rate takes the total contract view inasmuch as operations in the early part of the contract period may very well have been carried on at a loss, whereas the latter periods may because of the greater efficiency of operations result in an overall net profit.

To Side-Step Negotiation

"IN fixing the negotiated rate it is important to note that it should never exceed the indicated rate. However, in certain cases the rate may be so high that from the standpoint of the interests of both the contractor and the Government that it might be desirable to negotiate a rate which would be sufficiently low to eliminate later renegotiation and thus give greater finality to the settlement. Present Procurement Regulations provide for the exemption of the settlement covering the uncompleted portion from later renegotiation and also in appropriate cases for the exemption of the profits applicable to the completed portion. The injection of renegotiation into the termination settlement is, however, ordinarily appropriate only where all, or substantially all, Government contracts are terminated and it is desirable to eliminate duplication of work or

(Continued on Page 30)

Post-War Foreign Trade

Exports May Play a Major Role

By A. N. GENTES

Assistant Manager, Foreign Department, Guarantee Trust Co.,
New York City

The decrease in the export volume of practically all manufacturers over the course of the past two or three years is not reflected in figures issued recently by the Bureau of Foreign and Domestic Commerce. These figures indicate cash exports for 1942, exclusive of shipments to our armed forces abroad and exclusive of Lend-Lease goods to the United Nations, of about \$3,150,000,000, or slightly in excess of the average of the pre-war years 1936-1938. The increase in total volume as indicated by the Bureau of Foreign and Domestic Commerce may be explained in part by price increases and by noting the change in type of goods exported.

During normal years, our exports consisted in good part of a variety of consumer goods, whereas in 1942 we concentrated more on the essential products, such as coal, steel, industrial machinery, petroleum products, chemicals, paper, foodstuffs, textiles and military equipment. The decrease in individual export volume may be explained further by the loss at the outbreak of the war, or shortly thereafter, of previously good markets in many parts of the world.

Practically all European business was lost immediately, and at present the general scope of the export field is more or less limited to Canada, Latin America, certain countries in the Near East, the islands of the Caribbean area, and outlying places, such as Australia, New Zealand, South Africa, Iceland and India.

Exports Are Profitable

MANY complications are involved in shipping consumer goods through the normal channels to foreign markets still open to us and, in fact, some manufacturers in certain lines have decided to discontinue export operations for the duration or have been forced to do so for reasons beyond their control. On the other

hand, we see an increasing amount of interest on the part of manufacturers, who in the past have had no export business, or business of a limited volume. B.E.W. licenses, Lend-Lease operations, priorities, and lack of shipping space are the chief obstacles to the free movement of goods abroad, and as a result most of us have resigned ourselves to a limited volume for the duration.

Notwithstanding the possibility of a further reduction in our export volume to Latin America and other parts of the world, the wisdom of carrying on our export activities to the best of our ability in the face of many discouragements cannot be over-emphasized. A substantial backlog of savings is building up in the United States, accompanied by an unsatisfied demand for all types of goods, and while it is apparent that domestic business will be extremely active, it is also obvious that competition will be keen and the margin of profit small.

As in the past, the export business of the manufacturer may in many instances be the determining factor between profit and loss in the overall picture.

Comparisons are sometimes odious, but even in its darkest days the English Government made every effort and is still making every effort to encourage the export business of manufacturers, with a full realization of the importance of export trade in the country's present and future economy. Were we now to become discouraged individually, to the point of discontinuing our export operations, the task of rebuilding efficient organizations, both here and abroad, would be difficult and the expense substantial. Furthermore, many of us would lose our good agency relation-

ships to competitors, not to mention both the loss of good-will and the benefits of advertising built up over a course of years.

A Major Post-War Role

IN respect to post-war business, no one questions the general opinion that exports will play an important part in the economies of all countries after the war is over. When the restrictions and restraints imposed on exporters by the exigencies of war are removed, the export business of the United States should exceed by far the average of the pre-war years. A backlog of unsatisfied needs for both capital and consumer goods is building up in many parts of the world, particularly in Latin America.

If the present trend continues in the Latin American countries, and no reason exists to believe that it will not continue, the countries to the south of us should have a reserve of dollar exchange sufficient to pay for their import requirements for at least a few years after the termination of the war. Of course, this dollar exchange is not earmarked for our account and, if we are realistic, we will understand that we have no monopoly on Latin America trade, for, in the final analysis, trade will flow through the most advantageous channels.

In parts of the European area looted by the Germans and devastated by bombings, etc., replacement of capital and consumer goods will be needed immediately upon cessation of hostilities. But the transition from wartime operations to peacetime pursuits will not occur overnight. We will be faced by many changes in normal export procedure in the post-war world, favorable as well as unfavorable, and it may be of interest to review here some of the post-war problems, particularly as they will affect export procedure.

Of outstanding importance to

those engaged in international trade are the several programs now being suggested for the stabilization of currencies and the financing of international trade in the post-war period. The problems involved are intricate and many changes will undoubtedly be made before a final solution is arrived at. The tentative programs submitted by Lord John M. Keynes in England and Dr. Harry D. White in the United States are probably best known to us, as they have received wide publicity in the press. These two plans, while striving for the same objective, differ greatly as to detail.

The British plan, which would be based on the use of credit, would have no assets and the international trade money would be called "Bancors." The American plan would be based on the use of gold and would have \$5,000,000,000 in assets, to be comprised of gold, currency and government bonds, and the international trade money would be called "Unitas." It is estimated that the participation of the United States would be about \$2,000,000,000.

Both plans assume a willingness on the part of participating nations to keep their financial and economic affairs in good order, but it is conceivable that under certain unfavorable conditions, they may be unwilling or unable to do so. Too many unknown factors are involved at this time to pass intelligently on any program, but whether we agree or disagree as to details, the submission of various plans, at least opens the way for a discussion of currency problems and the financing of international trade during the post-war period, when disequilibrium in the balance of payments between various countries is bound to occur.

Cooperation between nations, in some degree, will be essential during the transition period, when their economies are being changed from a wartime to a peacetime basis, if we are to avoid a repetition of the errors of the past quarter of a century. All too vividly do we recall the war of depreciated currencies; Empire preferences, foreign exchange and import restrictions, tariff increases, and barter schemes hatched after the first World War and their restrictive influence on world trade. The devastating effects of the pres-

ent war on the economies of the European countries, the destruction of plant and material in the area of the war, and the inability of many countries in that area to provide for payment of imports during the period of rehabilitation, all point to the necessity of formulating now some well devised plan to finance future international trade on a sound and practical basis.

Favors Reciprocal Agreements

ONE mechanism available for the re-establishment of international trade relationships is the Reciprocal Trade Agreements Program, which should have the support of all engaged in foreign trade. Its extension after June 12, 1943, will go far towards easing the shocks that are bound to occur during the post-war period. Failure to renew the Act would sabotage the good work of some nine years and subject us to a ruthless international competition in the markets of the world. With some millions of men returning from wartime activities to peacetime pursuits, the products of our farms and factories, quite likely will be more than ample for our needs. A continuation of the Reciprocal Trade Agreements Program will enable us to continue to find outlets for these products in foreign markets and in its broad application, the renewal of the Program should benefit not only our foreign trade, but our domestic economy, as well.

In respect to merchant vessels, the tremendous production of new tonnage since the Pearl Harbor episode is no secret. The program in 1943 calls for about 19,000,000 tons, which is nearly equivalent to Great Britain's total tonnage at the beginning of the present war. Granted that part of this tonnage may be destined for destruction or for eventual sale to other nations, we shall seemingly close the war with a mercantile marine equaled by no other one nation. This is an encouraging factor for export trade and it is to be hoped that we can keep our ships fully occupied in a two-way traffic.

Politics or Economics—Which?

THE exigencies of war necessitate controls that are often burdensome, but necessary for the smooth opera-

tion of the war effort and for the maintenance of a constantly changing economy. But, government controls on export and import transactions pose the question as to whether foreign trade is to be governed by political or economic factors in the post-war world. Stabilization of world economy, as well as stabilization of our own economy, will be a slow process, subject to factors only vaguely perceived at this time. The large demand after the war for raw materials from domestic industry may result in certain shortages. Furthermore, if all controls are lifted at once, unbridled demands for both capital and consumer goods may start an inflationary process. The question then arises as to how these problems can be dealt with.

Should we look for complete relinquishment of government control at the conclusion of the war, or would it be more advisable that they be relinquished gradually as conditions improve? At least, we can hope that just as soon as possible, private enterprise will be permitted to carry on in its own capable way. This is as it should be, for it is already quite evident that if the heavy hand of government continues to encumber freedom of export operation in the post-war period, we shall be unable to compete in a highly competitive post-war world. Furthermore, it must be remembered that the expense of government operation can be paid only with taxes that must eventually find their way into the cost of goods exported.

We must not overlook the fact that after the war a number of countries throughout the world will not be encumbered by heavy debt services. Notwithstanding our technical advantages in manufacturing processes, the addition of debt service in the cost of goods may swing the balance to our competitors abroad.

Lend-Lease Competition

LEND-LEASE operations play an important and essential role in the wartime activities of the United Nations by providing war material, food and civilian supplies necessary to the successful prosecution of the war effort. Many of us have heard of cash sales lost to normal export channels because of the imposition of Lend-Lease control. Quite pos-

sibly, some of those first responsible for its operations may have been over-zealous in its application. At any rate, we now have the assurance, given on more than one occasion, that in the case of any transaction for which a foreign country or its national is going to pay cash, the presumption of Lend-Lease will always be that normal commercial channels of trade will be used. If Lend-Lease operations are necessary for a successful conclusion of the war, and we believe they are, then we are all out for it, but we do hope that its operations will be concluded as soon as possible after the termination of the war and that foreign trade will be permitted to flow through normal business channels.

Let us now explore for a moment the competition that will face us in world markets in the post-war period. Great Britain's need of export will be more imperative than ever before. Prior to the war, Britain's substantial imports were paid to a great extent by debt service earned abroad on foreign investment, by freight charges, insurance premiums and other services. In good part, these future returns will be uncertain. Therefore, it will be necessary for England to step up her exports to balance her imports. As a result of the war, England's manufacturing processes will have been improved and we may look for keen competition from that source and also from Canada, which has excellent manufacturing facilities and which, after the war, will assume a much more important place in world affairs.

South America as a Producer

AS for South America, you will find that the first World War resulted in the establishment of home industry in many different lines, by reason of the disruption of normal sources of supply. The present war has given further impetus to that trend, until at present we find a number of South American countries supplying their own needs and the needs of neighboring countries formerly filled in part from the United States. The manufacture of cotton textiles is a case in point. Argentina, Brazil, Chile, Colombia, Cuba, Ecuador, Mexico, Peru and Uruguay are supplying their needs in whole or part and in some instances shipping to neighboring countries.

Recent estimates indicate that Brazil's production of cotton textiles in 1942 was nearly double the pre-war figure. The total number of spindles at present operating in Brazil is estimated at 3,100,000 and it is reported that the value of orders placed by the Paulista mills for spinning and textile machinery in the United States and awaiting execution amounts to about \$4,000,000. Brazil has an ample supply of raw cotton more than sufficient for her needs and is one of the countries which is shipping substantially to other markets. The local Federation of Industries in the State of Sao Paulo, in the latter part of 1942, listed textiles as second in the order of production importance; foodstuffs being first.

Mexico might also be mentioned by reason of its proximity to the United States. We hear the Mexican textile industry is decidedly prosperous and working to full capacity. A large export business is now being conducted with Central and South America, the West Indies, and even with the United States. This does not mean that South America is lost to us as a market for textiles, although it is likely that in many cases sales will be confined to better grades.

In general, industrialization aids rather than hinders export trade, for the more a country is industrialized, the higher becomes the standard of living and the greater the demand for various types of goods. With greater industrialization a broad, however, manufacturers must be prepared for a change in the type of merchandise exported. Again reverting to textiles, we may sell less plain goods to the South American countries but more fancy goods, more textile machinery, yarns, dyes, etc. Industrialization will be most rapid in those countries with supplies of raw material susceptible of fabrication and with large centers of population.

Plenty of Competition

QUITE possibly, Latin America may represent our most desirable export market at the immediate conclusion of the war, but, in addition to English and Canadian competition, what can we expect in the way of competition from Belgium, France, Italy, Norway, Sweden, Switzerland, and from Germany, Russia and China? The question

cannot be answered at this time, by reason of the many imponderables involved, but certainly these countries must find a place for themselves in post-war international trade. Where the destruction of plant facilities has taken place, new properties must be constructed and this translates itself into modern machinery more capable of competing on an equal basis with our own manufacturing processes.

The accumulation abroad by the United States of backlogs of raw material, such as coffee, cocoa, sugar and raw cotton, to mention a few commodities, and the accumulation of large lots of foodstuffs and consumer products in the United States by the military authorities, presents a problem which may react unfavorably on exports after the war. Backlogs of material always create disturbances in the general economic picture. Is it possible that the payment by us of dollars to Brazil, Cuba and Peru for commodities that cannot be shipped in whole until after the war may be a dis-service? If the dollar exchange is reserved for future operations, the plan may be well conceived, but, under any circumstances, the accumulation of products will seemingly create disturbances in future markets for these countries. In respect to stock piles in our own country, we may feel it our duty to supply the world during the rehabilitation period, but, here again, we create certain disruptions in our international trade.

New Products a Factor

INTENSIVE research and new processes during this war period have resulted in the creation of new materials, or substitutes for products previously used by us. Great strides have been made in plastics, textile fibres, fabrics, rubber, glass, dehydrated foods and special metals, all of which are likely to play an important part in post-war export operations.

Our production of synthetic rubber after the war may enable us to fill our own needs and even supply other parts of the world, if at the conclusion of the war we do not scrap our huge manufacturing capacities and the investment of some hundreds of millions of dollars.

Let us explore briefly the implications
(Continued on Page 17)

The Psychology of Credit Letters

Phases of Retail Collection Appeals

By HELEN M. SOMMERS

Credit Manager, Trojan Hosiery Mills, Indianapolis, Ind.

Collection letters from the retail house to the consumer must necessarily follow the same psychological pattern found in collection letters which the manufacturer or wholesaler writes to the merchant.

Human nature is human nature, and the individual has the same basic susceptibilities and is motivated by the same attributes of pride, self-interest, fairness, goodwill, and fear whether he is a merchant paying his obligations for supplies and merchandise, or whether he is a wage earner or salaried or professional man paying for goods for personal consumption.

The retail credit executive, therefore, can find in the previous articles on wholesale collection procedure many suggestions which, with certain allowances for the consumer's more personal attitude and more limited business experience, he can adapt to his own use in addition to the material presented here which is devoted specifically to the consumer debtor and consumer collections.

Must Get Consumers View

AN understanding of the consumer's attitude toward credit is the key to successful retail collection letters that have the two-fold effect of getting the money and promoting goodwill, as all collection effort should. Consumers are usually housewives, or workers employed in walks of life not closely identified with commercial credit. Their attitude toward credit is of course limited by their experience. They see it from a personal point of view, as an arrangement for obtaining consumer goods, but naturally they cannot have a close understanding of the credit grantor's problems, and his viewpoint.

The retail credit man must bear this in mind, apply his imagination, and write his letters with a completely sympathetic understanding of the consumer's viewpoint. An adjustment must be made to bridge the gap, and it is the credit man who must get over on the consumer's side of the fence.

At the same time he must inject in his letters here and there subtle bits of educational propaganda aimed at promoting a broader appreciation of the value of credit and a closer understanding between his house and his customers as to their mutual problems.

Imply That Prompt Payments Are Expected

EARLY collection appeals to the consumer should start him off on the right foot. Remember he does not know just how lenient you will be or what you expect of him.

If you tacitly create the impression that you expect prompt payments as a matter of course, and that your other customers do business with you on that basis, half your battle is won already. After all, the debtor who takes advantage of his creditor does it because he thinks the creditor will tolerate it.

In these opening letters you are introducing your policies to your customer. He adjusts his attitude accordingly. It is not what you say, but what you imply that is important.

The straightforward tone of the examples on the opposite page convey the idea that promptness is expected of all customers, yet the tone is friendly and courteous.

Examples That Sell Prompt Payments

Appeals to Self-Interest.

Prompt payments help us to give our customers efficient service.

*

Prompt payments keep down overhead and help us to give our customers the most for their money.

*

Our credit department handles several thousand accounts. Promptness keeps down our overhead, and we can pass the saving on to you in better merchandise values. Will you cooperate?

*

Promptness keeps your credit record perfect, and helps us to give you more efficient service.

*

When you pay us promptly we consider it a courtesy and try to reciprocate with more efficient service.

*

We are here to give you efficient and courteous service on your charge account, and in return we respectfully ask for punctual adherence to terms of payment. That makes a mutually beneficial arrangement.

*

Credit accommodations are a service we are glad to give you, and we can do it best when our customers cooperate by keeping their accounts paid promptly.

Appeals to Fairness.

Of course we expect prompt payments in return.

*

We are glad to place credit privileges at your

disposal. Will you do your part by making your payments promptly on the tenth?

*

Good service is our obligation to you. Prompt payments are your obligation to us. Let's cooperate!

Early Appeals to Pride

WE have seen in previous chapters that arousing pride is a gracious but effective way to stimulate action, and it has the added advantage of promoting good feeling.

The next time someone pays you a compliment, or expresses confidence in you, analyze your reactions. Note the little glow of warmth the remark brings and the favorable attitude that results. We are all susceptible, and we all make an effort to vindicate others' confidence in us.

Expressions of Confidence That Arouse Pride

These Say that the Debtor Has the Right Attitude about His Accounts.

We know you don't want your account to be delinquent.

Knowing how careful you are to keep your accounts paid up,

We know you want to keep your account up to date.

There is a slight delinquency on your account, which we know you will be glad to correct promptly.

You will want to do something about this delinquent account right away, we are sure.

We know you are careful about keeping your bills paid promptly.

We know it gives you as much satisfaction as it does us to have your account up to date.

We can't help but feel that it is contrary to your wishes to have the account reflect delinquent charges.

We are confident there is some good reason why you have not been in to make a payment on your account.

We know how you feel about keeping up your accounts, and we are sure there is a good reason why you haven't been in. But —

These Say that He is Dependable.

We know you don't give your word lightly. What you say you will do we know we can depend upon, so we will be expecting you.

We know we can depend upon your word.

Tell us when we can expect payment and we won't bother you again, for we have always found that you do what you say you will do.

Come in and we will work out reasonable arrangements about paying this balance. We know we can depend upon you to do whatever you agree to do.

We know you won't disappoint us.

We know we can depend upon you to do the right thing.

We have always had a great deal of confidence in you, and we are sure you won't fail us.

These Say that He is Fair and Cooperative.

We know you want to be fair about this.

We have confidence in your sense of fairness, and

will be expecting to hear from you.

Your usual willing cooperation.

There are certain of our customers we know will give us their hearty cooperation on any reasonable point. You are one of them.

Arouse the Customer's Pride in His Credit Record

A REASONABLY good credit record provides a good basis for arousing the customer's pride, and stimulating him to maintain the standards of his past performance.

Reference to Past Performance

These Say: "You are usually prompt."

Something must have happened to keep you from coming in as you usually do on the tenth to pay your account.

We were expecting you in the store on the 10th as usual. I don't believe you have missed a payment in a long time until this month.

We don't understand why we didn't hear from you last month. You usually pay us so promptly.

Hm! This is strange! I find your name on our past due list. It has never been there before, and I am convinced it is there now quite by accident.

With your usual punctuality.

"You have a credit record to be proud of."

Your record with us is good. We want to help you keep it that way.

We know you take pride in keeping a good credit record.

You have a good credit record, and we know you don't want to spoil it by letting a delinquent account like this run on.

We know you take pride in maintaining an A-1 credit record and will appreciate our reminding you of a slight delinquency on your account.

There is a certain joy in maintaining a good credit record such as yours is.

A good credit record is something to be proud of, and we know you are careful about your obligations. May we remind you of - -

You have a good record. Don't spoil it.

Pricking the Customer's Pride

REMEMBER self-esteem wants to remain intact. We like to think well of ourselves and are disturbed if something prevents it. Be it ever so gentle, a little prick that gets under the customer's skin gives his self-esteem a tiny set-back and things begin to happen. He immediately strives to do something to correct the situation, and restore his self-esteem to its wholeness.

Ways to Prick Pride

These say: "You have not measured up to your usual standard."

This is not like you to allow your account to become so delinquent.

It is not like you to ignore our letters.

We can't help believing it is not your habit to do this.

Once or twice in the past you have allowed your

account to run a little past due and we had no objection to that, but this is seriously delinquent, and it's not like you.

"You have not measured up to our expectations."

Do you remember the day we opened your account? I feel that we got really well acquainted and, frankly, you inspired my confidence to the extent that I felt we would have the utmost cooperation from you.

The favorable impression I had when we opened your account led me to believe we could count upon prompt payments and close cooperation from you.

This situation does not agree with the favorable impression we had of you when we opened your account.

When we opened your account the credit reports we had were very favorable. We had complete confidence that we would be paid promptly.

All your references reported favorably when we opened your account and we had no thought but that we would receive your closest cooperation.

You have disappointed us. When we opened your account we felt that here was a customer upon whom we could depend to cooperate with us to the fullest extent.

We still believe the favorable credit reports we had about you when we opened your account were correct, but frankly we are puzzled by this delinquent account.

Frankly we counted upon prompt payments, and your close cooperation. The condition of your account disappoints us.

Our confidence in you is not shaken, but we do feel that we should have an explanation.

Appeal to the Customer's Fairness

SAY to him, in substance: "Credit is a mutual arrangement by two parties who agree to do certain things. We have done our part faithfully. Now it is up to you to do yours. We have treated you fairly and will continue to do so, if you will in turn be fair to us. Of course we have certain rights the same as you, and you should be aware of them. Naturally in fairness to ourselves we must protect them."

To be effective, the appeal to fairness must be frank and straightforward, a man-to-man appeal.

Appeal to Fairness

These say: "We've been fair to you."

We have certainly tried to treat you right.

We have given you the fairest possible treatment, and feel that you should treat us the same way.

Up to this time we have not troubled you very much about the account because we felt you had some good reason, and that you would soon work the situation out.

You have bought from us for many years and are entitled to our cooperation, and we have tried to give it to you.

"We'll continue to be fair to you, if you will cooperate."

It would be so easy for you to come in and tell us what you can do about paying this account. We will meet you more than half way, you may be sure.

How Many Times Have You Been Asked by Your Retailer:

"Please give me some suggestions as to how I can better collect my accounts receivable."

This series of articles by Miss Helen M. Sommers, Credit Manager of the Trojan Hosiery Mills, Indianapolis, has for the most part offered suggestions for credit and collection letters of the manufacturer and wholesaler. In this and following chapter Miss Sommers covers retail and collection letters. They are presented in "Credit and Financial Management" by way of an answer to the inquiries from your retailers for suggestions on their own collection problems.

We will meet you half way on any arrangement that is fair to both of us.

If you will show us that you have the right attitude about the account, and sincerely want to work the matter out properly, as we are sure you do, you can be certain we will cooperate with you to the fullest extent.

"You should be fair to us."

Don't you think it is only right that you should explain to us why you haven't paid, and tell us what arrangements you can make.

You are working and undoubtedly paying off some of your creditors. We are only asking for our share.

It is only reasonable to expect your cooperation in return.

In supplying you with good serviceable merchandise, we did our part. Now it is up to you to do yours.

The merchandise you bought has given you satisfaction and good service. It is only right, then, that you should pay for it without further delay.

"We have certain rights."

We have been more than ordinarily considerate. Now we must think of our own rights.

We have made allowances for you far beyond what would be required by ordinary fairness. Now we have to begin to look at our own side of the question.

Good business practice demands that we begin to look after our own interests.

We have to be fair to ourselves, too.

We are now compelled, in the interest of our own welfare, to take a different attitude toward the matter.

Goodwill

A PPEALS to goodwill fit at almost any stage of collection procedure. They effectively supplement other appeals, add graciousness to the tone of the letter, and frequently serve to take away the effect of abruptness or sharpness that the debtor sometimes reads into a letter even when he has little or no grounds for doing so.

The approaches on the opposite page are arranged progressively according to the collection stages at which they can be suitably used.

Appeals to Goodwill

Just a reminder in the friendliest spirit.

*

When I write to a customer, I like to imagine that he is sitting here at my desk and we are chatting in a friendly way.

*

We want you to feel that we in the credit department are your friends. We are here to serve you, and to make convenient arrangements available to you, and help you solve any problems that may arise affecting your account. Won't you come in and discuss this situation with us?

*

Imagine you are sitting here at my desk and we are chatting in a friendly way as we did the day we opened your account.

*

Just imagine you are sitting here at my desk, and we are talking over our problems.

*

Let's talk things over just as if you were here in my office, or I were sitting in your living room.

*

In all friendliness, let us discuss the matter perfectly frankly.

*

It would be too bad if we couldn't work this problem out in a friendly way after the many years of pleasant business relations we have enjoyed with you.

*

But we don't want to do that (legal action). We certainly would prefer to continue the same friendly relations we have always enjoyed with you.

*

We don't want to pursue the matter that way unless we have to. We have always enjoyed pleasant relations with each other. Surely we can settle this matter in a sensible and friendly way.

Self-Interest

SELF-INTEREST is a vulnerable point with any individual. Begin talking in terms of personal and material advantage to him, and you will catch his attention and keep it as long as you are convincing.

Selling the consumer on the value of a good credit standing is of course an appeal to his self-interest, and should be a part of every credit man's educational program to promote greater respect for credit privileges and a better understanding of the importance of credit.

Appeals to Self-Interest

"It is to your benefit."

You owe it to yourself to come in and talk this matter over with us. You will find us reasonable.

We want to treat your account only in a way that will be to your best interests, but we can't do that if you keep us in the dark and fail to answer our letters.

We are only making a sincere attempt to help you work this matter out to your best advantage.

All you have to do is to come in and have a conference with us.

We can't handle your account to your best interests if you leave us in the dark as to what is causing you to delay payment.

If you don't give us the facts how can we cooperate with you?

You make it difficult for us to work with you when you keep us in the dark as to what is causing the delay in payment.

If you have a problem that is interfering with payment, perhaps we can help you solve it. Why not come in and talk the matter over with us frankly. It will be to your benefit.

Won't you come in and make definite arrangements about payment? We are willing to do anything that is fair to both of us and within your ability to pay.

You will find us willing to meet you more than half way.

Anybody's personal affairs can get out of control at some time, so that he can't pay his bills as promptly as he would like. But that is what we are here for—to help you solve such problems.

"Your credit record is valuable to you."

A good credit record is a business asset. You can trade on it at any time you want.

What is more satisfying than a good credit record. You can be proud of it, and what's more, it is a valuable business asset.

Your credit standing means dollars and cents to you. Don't let it be spoiled.

A good credit record is something to be proud of, but it is more than that. It is a means of tiding yourself over emergencies—and who doesn't experience emergencies once in a while. Guard your credit record by prompt payments. It will pay you big dividends.

You've maintained a good credit record through faithful and conscientious payments. Don't spoil it! It is valuable to you.

We don't like to put your name on the delinquent list. It affects your credit record, and that is important to you.

Stronger Ways of Treating Pride

PRICKING it rather deeply, we say to the individual, "There are certain little commonly accepted forms of behavior that we can expect of any customer. But you haven't measured up."

Or, prodding it so that it receives a real jolt, we say to him that he is a conspicuous member of a very small minority that is outside the pale.

Or we can, as a still stronger measure, directly assault his pride and challenge him to prove his worthiness.

Examples That Prick and Challenge Pride

These say: "You haven't done what is ordinarily expected of an individual."

It is only a matter of common courtesy that you should answer our letters and give us some opportunity to work with you.

It is only the proper thing to do.

It is only a matter of ordinary fairness that you should come in and discuss the situation with us.

It is the only acceptable thing to do.

Just ordinary business courtesy calls for an answer to our letters that have given you so many opportunities to cooperate with us.

It is such a little thing to ask—that you drop us a note of explanation.

Just ordinary cooperation is all we ask.

We are only asking for what is reasonable.

"You are one of a delinquent minority. Come over on the side of the majority."

I will have to refer your account to the Treasurer if it is not paid this week.

Suppose I hold your account on my desk here for a few days to give you a final opportunity to send us a check.

Your account is one of half a dozen that has been laid on my desk for special attention.

Mr. Blank referred several seriously delinquent accounts to my attention this morning, and yours happens to be one of them.

I find two or three files on my desk this morning for special attention. One of them is yours.

Of course we naturally expect prompt payment of our accounts, and we are glad to say that most of our customers cooperate with us in this respect.

We are always reluctant to turn an account over to an attorney, and rarely do we find it necessary.

"We had confidence in you, but now we are beginning to doubt our judgment. It is up to you to prove yourself."

We hesitate to believe that you really don't want to cooperate with us. That just isn't reasonable.

We've done all we can to give you an opportunity to cooperate. It is up to you now.

You will find us willing to meet you half way if you will give us some indication that you are ready to do your part.

All you have to do is give us an indication that you really want to work with us.

A step in the right direction would be a partial payment and a reasonable proposal to pay the balance according to a definite plan.

Threat of Legal Action—the Last Resort

HERE we can work both on pride and fear. Pride enters the field when we arouse it by reminding the customer that such action should not be necessary in his case; and when we prick it by expressing confidence in the honesty of most people and indicate that only a very small minority have to be sued. We play upon fear when we mention both the embarrassment and the expense of legal action.

All threats of suit should express preference for a friendly settlement, and give the debtor a "last chance" alternative.

Threats of Legal Action

These Arouse Pride.

Such drastic action should not be necessary to collect a just debt from a man of your standing.

Surely it is not necessary to resort to legal action to collect an honest debt from a man with a good substantial record like yours.

The Last Word on Termination

—you will find the summarized text of the latest Regulations issued by the several war agencies in the 1944 Credit Manual of Commercial Laws covering the very important subject Termination of War Contracts and necessary steps to take to speed adjudication and prompt payment.

This is one of the BIG PROBLEMS now facing American Industry. The War Department has already announced its Manual for handling Terminated Contracts. Other War Agencies are at work on similar Manuals.

We believe you are one of the vast majority who pay their bills as a point of honor, and not because they are obliged to do it.

We frankly do not believe you are one of the rare individuals who have to be forced to pay their obligations.

These Play upon Fear.

Your record is clear of any such action in the past. Surely you won't let it be marred now.

Your credit record is clear. Such action would do it severe damage.

Of course we can collect the account through legal procedure, but are reluctant to resort to those means, for that would cause you embarrassment and expense.

You don't want the notoriety and expense of legal action and we certainly would not like to see your credit record marred by it.

Legal action is expensive and embarrassing to the debtor. We are reluctant to resort to it, and rarely do we have to.

Of course we could resort to a lawsuit, but we don't like them, and you wouldn't either. And it would be so unnecessary. Can't we get together and work this matter out sensibly?

Collection by legal action is distasteful to us. We don't like to cause our customers that embarrassment, and rarely do we have to.

In the October Installment Miss Sommers will present a number of suggested letters using the appeals discussed in this installment.

Wanted—A Creditman Who is a Salesman

Producers Will Be at a Premium in Post-War Era

By J. T. O'NEILL

Credit and Collection Manager, West Publishing Company, St. Paul, Minn.

ONly a few years ago—the creditman had a desk in the darkest corner of the office. Considered a “necessary evil,” his department was referred to as the “morgue.” He presided majestically over his dusty files of “dead” customers and “dead” orders—and decadent credit reports. Formaldehyde was in the air!

He oftentimes dressed the part. A lot of fun in his home (and a regular fellow, make no mistake about that); yet, he was a changed man when he got to his office. Gay colors and a debonair air were too much like a salesman. His letters showed unconcealed restraint—they were oftentimes like the report of a coroner's inquest. To flirt with humor or unlace a joke in them “was too undignified.” Yet, too much dignity like ridicule have killed a lot of regular fellows!

Anyway, the merry boys on the road named him “Doc Nixie” and if he had known of it, he might have been pleased. He loved to say “No” and secretly he was proud of his power to utter this sourest word in human speech—when everybody was urging the magic word “Yes.” Hard-headed—straight-laced—unemotional—he brought his profession to the verge of the appearance of a Mortician Union.

The “Turn-Down” Expert

ONE day in the year he was all aglow. That was the occasion of his annual report. He had kept a meticulous record (and expensive, too), of orders “turned down” with an elaborate summary of “why's and wherefore's.” It was an indirect powerful arraignment of certain sales folks who tried to “get by” with a bad order. On page 12 was the total business turned down, \$38,500—equal to 3.1 per cent of the business. Here he rested his case with the intimation that his policies had



“killed before hatching” a lot of other poor sales. At night he dreamed the boss said: “You must have saved us from getting \$100,000 worth of business this year—we couldn't get along without you very well.” Sometimes he would wake up in a cold sweat when he wasn't sure the boss said “could” instead of “couldn't.”

Wanted—a Creditman who gets unalloyed joy with the “passed order” and who finds fault with himself and his credit equipment when a sale is “unmade.” Substantial starting salary, but must have a real sales record in his credit work and known as a tremendous builder of good will with customers and sales force. We will not worry about your age but we will worry about your present boss letting you go. Address Times-Express 4854.

The easy twenties passed into the baffling thirties. Doc Nixie's Company was hurt. An outside business “doctor” was called in. He did some skillful operating in the production end. When he got to the business offices, he knew what to expect. Department lines had been drawn, lines like the irascible neighbor's picket fence with plenty of barb wire on top. “Step over into my department and I will show you what war is.” Department heads (and Doc was not alone in this) were acting like “relatives estranged” which is the ultimate in warfare wherever found.

Producers Always Wanted

BETWEEN ourselves—here is a good place to pause for a burning question—when a business is reorganized, whose heads go first into the basket? Generally and almost always—it is the fairly well paid office man whose job brings no business into the company. It may not be right and may not be fair, but it is usually goodbye to the high price creditman, accountant, head bookkeeper, treasurer—money immediately saved without hurting new, necessary incoming business—is the theory. Think of some dismissals that shocked you and answer—were they men vital or helpful in promoting sales when things were going wrong with the firm?

Sales are still the sole generative force of a private business. Without them in proper quantity there are no by-products of profits or good paying executive jobs. In normal times diminishing sales mean corporate death. Low credit losses assist profits—if there are profits. But sales, sales, sales must be the theme song that gets into every act, word or deed of every office executive or sooner or later he will be an “expendable.” Credit men have only given lip service to this crusade, although he has always been in a position to be his

firm's No. 1 producing salesman.
But to go on with Ol' Doc Nixie—

A Lot of "Foolish" Questions

A BRAND new General Manager was elected in Doc's firm. Doc was called in the first morning and as he was telling his little wife that memorable night—"The new manager won't last long, he doesn't understand the job of a creditman, he wants to revolutionize things and of all the silly questions like—Have you ever sold for the Company on the road? Do you ever ask for a road trip? Do you know the selling arguments for every product made by us? Have you contributed any sales ideas that went over? Does every letter to a customer—form or personally dictated—casually mention some worthwhile product or service of ours? Do you feel that Sales and Credit Departments should be separate and distinct? Do you believe once a slow pay, always a slow pay? Before turning down an order, how many schemes have you developed to get the order through? Do you sometimes personally collect accounts and get customers' personal reactions to your accounting and credit methods? Do you feel business letters should be formal or how hard do you study to make them human? Do you feel most salesmen try to pull deals? How often do you and the Sales Manager have lunch together? How much new business did your Department bring in last year? Do you feel after an order is filled that you have the responsibility for customers' continuous good will—and his repeat orders—or whose job is it?"

Credit Men Who Can Sell

AS Doc told his wife—he was dumbfounded. Not one word about his fighting up through ranks from bookkeeper to credit manager? What about his guarding his Company's money and his painstaking record of "turn downs"? What about shaming customers who took unearned discounts? What about the important job given him by his local credit association? Didn't the new manager know of his correspondence course in law so he could help with suits against delinquent customers? What in Sam Hill is expected of a trained Creditman—if they simply want another salesman—why not hire one?

But, nevertheless, Doc was asked to fold his tent and silently steal into the night—fortified with three months' salary and a character reference. Maybe it was a mistake. Doc's wife was sure they would be calling him back when they realized their loss.
But one thing was sure—Doc and some of his contemporaries of those times couldn't qualify for answering the new manager's ad for a modern creditman and if you don't realize what modern business wants in a creditman today—brother—you better get around and wise up. There is still time.

Thousands of young men will be

coming back from the wars—many in their teens or early twenties who have had charge of others. New ideas—new visions—a new ruling generation! Let us have a part in the stirring all-out pilgrimage for sales—use our innumerable selling opportunities—before our old profession is marked as a non-essential. But, don't kid yourself. You nor anyone else have ever done enough to help get more sales, sales, sales. Remember—you have the facilities for being your firm's No. 1 producing salesman without detracting one iota from your highly respected specialty. Business will always want—A Creditman Who Is a Salesman!

Post-War Foreign Trade

(Continued from Page 10)

tions involved in this probable change of sources of supply. In 1939, our imports of crude rubber and latex, principally from British Malaya and the Netherlands East Indies, exceeded 1,100,000,000 pounds, with a value of approximately \$178,000,000, which is fairly normal, as indicated by an average of \$167,000,000 for the period of 1935-1939. Normally, the dollar exchange created by us was used only in small part by those countries for purchases from us and found its way back to the mother countries, where it was utilized by them for purchases in the United States. In 1939 we sold the United Kingdom some \$505,000,000 worth of merchandise and the Netherlands approximately \$97,000,000 worth of merchandise. Part of the exchange used may be traced directly to our purchases of crude rubber in the Far East.

Unless some other means are found to create exchange for both the United Kingdom and the Netherlands, the obvious conclusion is that in general their purchases from us will be less. Rubber is mentioned because it lends itself to a simple example of the changing pattern of affairs of the future, but, additionally, we are encouraging the increased production in Latin America and to a certain extent in our own country of certain other raw materials previously obtained in more distant parts of the world.

So many intangibles are involved

in the world situation that it would be foolhardy to make a dogmatic statement as to the future of our export trade and, therefore, all of the foregoing is given as food for thought rather than statement of fact. However, while our full efforts should be directed to the winning of the war, we can ease the burden of the post-war period by discussing those problems most apparent to us and by preparing to meet them through intelligent planning.

Making Study of Civilian Needs

THE Office of Civilian Requirements is prepared to prevent possible shortages of essential civilian goods, an announcement from that department late in July declared. It is pointed out that the supply and production of some 1,000 civilian products are being carefully followed so as to be sure that proper allotments are made by the Requirements Committee of the War Production Board.

This plan does not contemplate interference with the production of essential war materials but does hope to maintain the civilian economy above the bare necessity level.

Permission to produce ten sorely-missed household articles, such as metal pot scourers, flour sieves, and carpet sweepers, was announced by the War Production Board late in July.

Withholding Tax May Set New Form of Liability

CFM In the June issue, Mr. Heimann presented as the theme for his editorial "Trustees for Uncle Sam." In this discussion Mr. Heimann pointed out the importance of placing all funds deducted for the account of our government because of the withholding tax or the Social Security remittances in separate bank accounts. He also stressed the point that such accounts should be definitely earmarked on balance sheets so that they will not be considered as available for business operations.

Of special interest to credit executives in this connection is an editorial appearing in the August 12th issue of the *New York Journal of Commerce* which points out that failure to properly trustee withholding tax funds may have a damaging effect on the credit position of a concern failing to follow such a plan. The Controllors Institute of America has made a special study of this new requirement placed on the shoulders of financial officers, but it is from the standpoint of credit that the National Association of Credit Men is interested in this subject.

The text of the *New York Journal of Commerce* editorial under the heading of "Withholding Tax Liability" is as follows:

"Employers, under pay-as-you-go taxation, face greater risks of defalcation of funds than in many years past. Unless heavy personnel turnover subsides and proper attention can be given to investigation of employees responsible for handling money, this condition may last for the duration of the war and into the post-war period.

"The Revenue Act of 1943 places upon employers certain responsibilities in connection with the withholding and payment of taxes. It provides penalties for failure to live up to them, Section 1623 of the Act requires that "The employer shall be liable for the payment of the tax required to be deducted and withheld * * *."

"With turnover of personnel at an all-time high, those responsible for sound management and the proper

discharge of any liability imposed by law have a greater number of untried and untested employees in responsible positions than ever before. The white-collar, frozen-salaried group is being hit harder, perhaps, than any other group in American industry by increased living costs and higher taxes. Manpower shortages and greatly accelerated business tempo make it extremely difficult for auditors, accountants and examiners to give as thorough attention to transactions and records as in periods of normalcy.

"Under these conditions, it is estimated that the new tax plan will place approximately 17,000,000 income taxpayers on a fully current basis as far as 1943 tax liabilities are concerned. A large part of the \$38,000,000,000 of taxes to be yielded during the next fiscal year will be handled by employers and their employees.

"It is, therefore, important for employers to reappraise the value of adequate fidelity coverage. Unless they are protected by suitable fidelity and blanket coverages in satisfactory amounts, they run the risk of learning, to their sorrow, that defalcations have caused shortages in accounts and that they must discharge their liability by paying without delay all tax moneys due the Federal Government."

It is important when checking financial statements to be sure that this item of "Withholding Tax Liability" is definitely and properly accounted for. The Publications Committee of the National Association of Credit Men is arranging for a change in all financial statement blanks now in use when the present supply is exhausted so that this withholding tax liability may be properly shown, but in the meantime credit executives are urged to check on this important point so that they will not be misled by a large showing of cash in the financial statement, most of which in fact belongs to Uncle Sam rather than to the business.

Termination Confab To Be Repeated in Three Other Cities

Chicago: The conference on the Cancellation of War Contracts under the auspices of the War Activities Committee of the Chicago Association of Credit Men at the Sherman Hotel July 21 proved so popular that other cities in the 6th Ordnance District asked that it be repeated and similar conferences will be held in the

Twin-Cities, Minneapolis and St. Paul, Milwaukee and the Tri-Cities, Davenport, Moline and Rock Island.

Lt. Floyd E. Beach will be in charge of the program and the following will take part: Brigadier General Thomas S. Hammond, District Chief, Chicago Ordnance District; Henry Isham, Chief, Planning Division; Lt. Col. George V. Rountree, Chief Contract Service; Lt. Col. Francis W. Parker, Jr., Executive Officer, Contract Service; Major Frank W. Renwick, Jr., chief legal branch, and other army and civilian officers of the District.

The Chicago program consisted of a three act skit which proved most instructive as well as highly amusing, a round table discussion and a period for questions and answers. The meeting lasted several hours and every conceivable situation was brought out and given a hearing. The Chicago Association of Credit Men issued a transcript of the conference in printed form covering 16 pages. These are available at \$2.50 each.

Issues Bulletin On Budgets for Peace Conversion

The National Association of Cost Accountants, 385 Madison Avenue, New York, has issued a special bulletin which may be of interest to treasurers and financial executives covering the general subject of "Business Budgeting with a View to Conversion from Wartime to Peacetime Conditions." This monograph is written by V. Richard Bechtel, Budget Director, American Cyanamid Company, New York, and covers a wide range of subjects having to do with a reconversion to peacetime conditions. It also gives several examples of hypothetical budgets.

Vorlander Names Committees for Minneapolis Year

Minneapolis: Ed. C. Vorlander, Credit Manager, Minneapolis Honeywell Company, is the President of the Minneapolis Association for the new Association year. Other officers are Vice President, Marshall A. Frost, Secretary, Minneapolis Iron Store; Councillor, Harold W. Swenson, Credit Manager, Reinhard Brothers. President Vorlander has already announced the chairmen of five of the more important Association committees.

Soused

A man was fumbling at his keyhole in the small hours of the morning. A policeman saw his difficulty and came to the rescue.

"Can I help you to find the keyhole, Sir?" he asked.

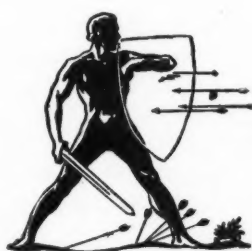
"Thash all right, old man," said the other, cheerily, "you just hold the house still and I can manage."

INVESTIGATION ALONE IS NOT ENOUGH...

Investigation though complete and apparently satisfactory, affords no conclusive and final measure of protection.

Corporate Sureties annually incur millions of dollars in losses caused by embezzlement by trusted employees—notwithstanding exhaustive investigation by underwriters.

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INVISIBLE ARMOR

NATIONAL SURETY CORPORATION

VINCENT CULLEN, *President*

4 Albany Street, New York

Business and Credit Problems After V-Day

Major Influences Affecting Industry

C Business men of the United States recently sent more replies to a questionnaire on post-war planning than had ever been received to any sort of questionnaire sent out by a reporting organization of national scope.

The same wide interest in the post-war era is evidenced by the presence of the subject on programs wherever men come together.

That fact in itself is a thing of good omen, but it guarantees nothing. Analysis of the questionnaires and press notices on various meetings disclose a variety of conflicting ideas which reflect the cross currents of private and individual interests. Perhaps that is natural and it may be that it is just our "American way," but our stake is too great for "muddling through" to be satisfactory any longer. We need to take ourselves into the clear atmosphere of a mountain top where in calm deliberation we may view the full scope of what lies behind and the forces now at play.

Now at High Tide

AND from such a vantage point we could not fail to recognize that the fortune of mankind is riding the strongest tide that has ever carried it forward. The shrunken globe is engulfed and the currents that sweep us to better or worse will have equal force on the fate of every other nation. Where we shall stand when the tide runs out it is, I think, impossible to predict. That rests in the hands of our leaders, in whom we have faith. But we have the precedence of all history for saying that, in the end, whatever may be the fate of any political group, mankind will emerge on a higher level than ever before attained.

And, if that be true, then I know of no more impelling reason for expecting our leaders in business and

By PAUL J. VIALL
Chattanooga Medicine Co.,
Chattanooga, Tenn.

government to so guide our course as to assure for us a place in the forefront of those who build a new era that will support an enduring peace.

Such a peace is no dreamer's will-o-the-wisp. It is the only thing that all the suffering and expense of this war adds up to. We are drenched in the blood of another war so soon because we lost the peace of the last one. Totalitarian philosophies were no accident. They grew from the seed sown in the "peace" of the last war. Our struggle for existence today is against a Frankenstein we helped to create. Our fight is no crusade. We are in it because our war of life—and by that I mean our economic pattern—could not exist side by side with totalitarian states, which honestly requires that we admit is no more than the form taken by the masses of restrained peoples striking to throw off the shackles of an unworkable peace.

We Must Continue to Fight

WE had no alternative but to fight again. We have applied ourselves to the task in a way that now assures victory at arms. But that alone will not justify the price. To survive in the era that follows will require the same qualities of "Blood and guts" in the right directing of commerce.

I am not thinking of the mechanics of your business or mine, for we will continue the sound fundamental practices of our industries in so far as we have the power to exercise judgment and control.

I am thinking rather of the major influences that affect us all to a degree beyond the power of an individual or an industry to control. Upon those things rests our fate down to the least among us.

They may be grouped conveniently into *national* and *international* questions, the first of which is more immediate, for even now some of them press upon us.

Perhaps the most immediate influence in point of time is that of *inflation*. The outcome of the present effort to hold control over the trend toward depreciation of our currency will have very far-reaching post-war effects. Your guess as to the outcome is as good as mine. But we can say with certainty that it is not time for political horse trading and unless the movement of prices is held to an orderly trend we shall suffer irreparable injury to our economy and to our position among nations.

What of the Bureaucrats?

ANOTHER question with us now is whether we shall continue to pyramid bureaucratic controls over our business operations or, by operation of our democratic processes, require a recession to a reasonable ground that will afford adequate protection of public interest and leave the operation of businesses to experienced business men under government by laws rather than by men who in their bureaus are prosecutor, judge and jury without the right of judicial review, in many cases, of decisions supported by evidence—not supported by the preponderance of evidence judged by a jury of disinterested men, but merely by evidence developed by bureau employees to support the findings they feel are required to protect America from American business men. It is no criticism of any particular agency to say that the system as a whole suffers from such an overabundance of growth that a great deal of pruning would benefit both it and the business community from which it derives its sustenance.

The national debt is a matter of

great concern. But, without depreciating its importance, I view it with less apprehension than other things which bear directly upon the character and moral fiber of our people. The weight of debt is always relative. A man employed full time can carry without difficulty an obligation that would be impossible with part-time employment. And, as all credit men know, a man who has both opportunity to work and those fine traits of character which make him choose a more frugal mode of life, that he may sooner be free of debt, is a far more acceptable risk than one who is content to let obligations stand.

Debt Is Not the Big Problem

ANOTHER factor of debt is the direct cost. High interest rates perhaps have done more damage than the principal on which they were charged. National debt of 200 billion dollars at 2 per cent costs no more than 100 billion dollars at 4 per cent. And 200 billions with national income sustained at 100 billions a year can be retired with far more ease than half the debt at half the income. Our debt, large as it is becoming, need not mean national bankruptcy nor repudiation in any form.

If we marshal our forces as well for the tasks of peace as we have for the tasks of war the results should be equally favorable. Naturally, the level of employment is the yardstick by which that effort will be measured. Let me amend that and say the level of bona fide employment, for there will be employment of one kind or another in the immediate post-war period and for a considerable time thereafter. Either it will be supplied by private enterprise in constructive progress that makes men strong of mind and spirit and body, or it will be of the public works variety that when long sustained will sap the will of those who must lean upon it and deprives their children of the heritages of home and opportunity which they are entitled to expect in a land of free men worthy of the name.

Confidence in Future

I SAID at the outset that much talk and widespread interest in the post-war era guarantees nothing. But I have tangible reason to be confident

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that the level of employment in our country will suffer a minimum of shock in the transition from war and will be quickly expanded to meet the new needs and new opportunities. That confidence is based on the activities of The Committee for Economic Planning, a non-political organization conceived and inaugurated by about twenty of our most prominent national industrial leaders. All of you, no doubt, have read considerable about the work of this organization in the press and various periodicals. It is dedicated to the sole task of giving business scientific leadership for keeping employment at the highest possible level. For months economists and trained business experts employed in the research department of the Committee have been at work establishing facilities for aiding every business in the country that will avail itself of the opportunity to plan for both products and markets to meet the conditions ahead.

Never before in the history of American business have business men taken such intelligent steps to meet their responsibility. Every industrial community in every Federal Reserve District is being organized. And if my own section is a fair example of the general response to the call of the committee, it is assured that strong leadership will carry the plan to effective consummation. Your effort and mine added to that of multiplied thousands of others in this planned way will be the progressive force that will preserve and advance our American way of life against the alternative of temporary economic sedatives administered by political leaders in the field of business where they have neither talent nor proper place.

We Get What We Deserve

DO not take that as an indictment of political leadership. I hold that as a nation we get what we deserve. We have the power through planning and positive action to make it what we will. It is only when we fail that political leadership can take the wheel and do the driving for us. In the past our interests have been expressed too much in power groups that have had only selfish ends to serve, and whenever that is true our political leadership cannot be expected to rise above it.

It is therefore necessary that we

give equally serious attention to the matter of our political leadership, for particularly in the field of foreign intercourse our affairs of state and affairs of business must go hand in hand. Relevant data is not available and neither is there time here to go into much detail, but some things seem quite certain.

First there is the political necessity of feeding and clothing the people of ravaged countries as they are freed from enemy occupation, to give them sustenance while the problems of rehabilitation are being worked out to conform to the new global pattern. It is vital that very definite steps be taken to keep the world free of the totalitarian virus, and undoubtedly the strongest prophylactic will be the promotion everywhere of fundamental economy comparable with broad and enlightened regard for the rights of free men in a world where all men are neighbors.

It is inevitable that we share with England responsibility for such leadership, or, if England fails, that we give the leadership alone. That, I think, we are prepared to do. It is no easy undertaking in any event, but our sinews are hardened from vastly more experience than at any previous time in the fine arts of government, business and political diplomacy, and down-to-earth trading in the marts of the world.

The Responsibility We Face

THAT responsibility is ours because of the position we occupy and also because of the necessity from the standpoint of our own interests for having employment sustained at a high level for a very long time. There would be no way of escaping it if we desired. So, it is fortunate that we have the means to carry through.

It is reliably reported that only a few months hence, our navy will be at a strength equal to the combined strength of all others.

Our merchant marine is being tremendously expanded both in ships and personnel.

Our armed forces are training men in the geo-politics of countries with which we will have to deal.

There are other things which might be mentioned, but these suggest the quality of our preparation for the task abroad, as the work of the Committee for Economic Planning indi-

cates the sound approach at home.

We will be dealing with a domestic situation and with a world more liquid than at any point of modern history.

Individuals are becoming free of personal debt, by reason of full employment and legal limitations on installment buying—plus the scarcity of goods to buy and price control regulation.

Industries have been forced from entrenched positions by the necessity for full conversion to war production and by the pressure of new materials and new methods born of the necessities of war.

Old Barriers Are Broken

OLD barriers of international alignments, the dominance of long established vested business interests, even old enmities, are being broken down. Multiplied millions of people are being unleashed and propelled forward. Asia, for instance, has 53 per cent of the world's population, not including Russian Siberia. There is sound reason to expect that in China, India and the East Indies there will be industrial developments following the lines of more advanced countries. To my personal knowledge there are now residing in this country a number of trained Chinese engineers studying the methods of the Tennessee Valley Authority. Through them the good of the work done in our valley will flow to the valley of the Yangtze and then flow back in the form of greater trade made possible by the improved condition of these people.

Great strides have been taken toward improving our relationship with the peoples of Central and South America. Our opportunities and our obligations there are obvious and need not be dwelt upon. It is our natural field of influence and we must not fail to overcome by good and strong good neighborliness whatever may remain of old ill will. There is greater mutual need for common bond in peace than in war.

Money Is Not Always Bad

THERE is an old saying that money is the root of all evil. Certainly it is the handmaiden of many, but it is also the vehicle of much good and the assurance of stable money is an indispensable accessory

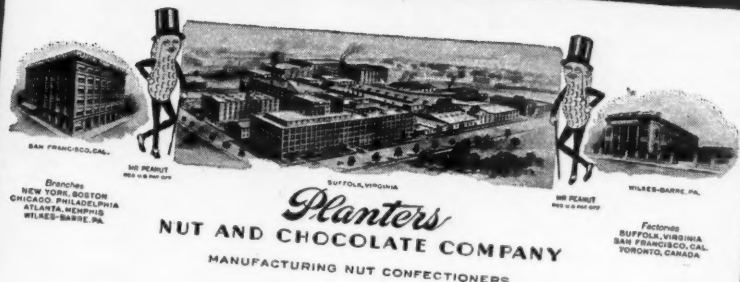
to the post-war progress. Plans already disclosed by our government and by the English government indicate that there will be established an adequate means of exchange which, by reason of our strong control and theirs will not be subject to manipulation. Because of its tremendous importance, it is reasonable in the light of other planning to take that for granted.

We are on the high road to adventure where fears and misgivings should be left behind, for we have the high privilege of opportunity to solve our own problems by a course which at the same time may aid in bringing the great freedoms to other peoples around the globe in such measure as their customs and circumstances will permit them to absorb. If we are willing to live by a hard code of labor and frugal habit, as totalitarian people have been taught to do, and apply to our relations everywhere the code so long embraced in our personal lives it is reasonably possible that from the base metals of commerce and trade the practice of such alchemy may produce, not an era, but an age in which credit men and business men in all capacities may devote their full energies to the pursuit of competitive commerce under a code which cherishes the right of all people to engage in free enterprise insofar as their social and economic development is amenable to participation without unconscionable injury to others.

New Priorities Regulation Controls Bankruptcy Sales

ADJUSTMENT Bureau Managers and those charged with the job of selling certain stocks from bankruptcy estates should carefully read Priorities Regulation No. 13 as Amended on July 19, 1943. This revised Regulation in general covers the sale of materials by those who are not in the regular business of selling those materials. It sets forth that "this Regulation also controls liquidation sales, bankruptcy sales, auction sales and other sales which are not considered sales in the regular course of business." Those interested should apply to the nearest office of the War Production Board for a copy of PR-13, July 19, 1943-War Board-6783.

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Mr. J. F. McFadden, President,
American Credit Indemnity Company
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American Credit is now an "old insurance company" . . . and insurance companies become "old" only by honorable service . . . by excellent reputation in the business community. Our own 18 years of relationship is testimony of our confidence in both the financial strength and character of your Company.

While offering my congratulations, I should also like to extend my best wishes for the continued success of American Credit in the years ahead.

Very truly yours,

PLANTERS NUT & CHOCOLATE CO.

MP:MLP
M. Peruzzi

[Signature]
Vice President



J. F. McFadden,
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The Post-War Balance Sheet

War-Era Brings New Factors to Analyze

WE, as credit men, think we have a headache under present conditions in dealing with contractors, sub-contractors, the Army, Navy, etc., but contrasted to what we will have at the end of the war, it will be only a slight chill compared to a bad case of double pneumonia, and I firmly believe what we do now will have considerable effect in hastening the crisis and lead to the inevitable period of convalescence.

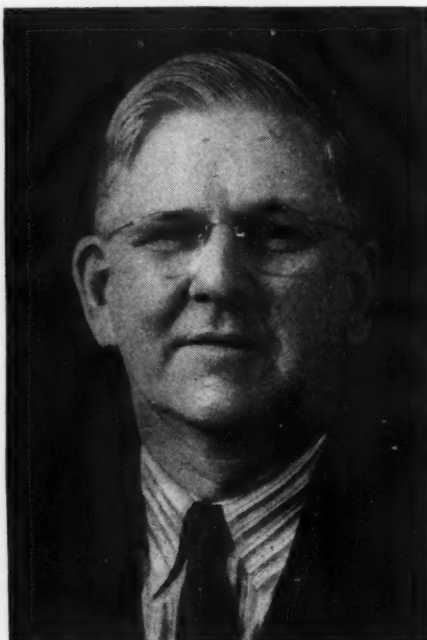
Personally, I am not particularly concerned about the well-managed company which, over a period of years, has successfully merchandised its product in established channels, but rather the manufacturer who has become established in business within recent years and whose success or failure depends entirely on contracts obtained because of the world conflict. He has no nationally advertised or standard product to sell and when hostilities cease, as far as future business is concerned, almost without exception he is finished. He came into being because of the inability of the established concerns to handle the enormous increase in orders which were placed wholly because of the emergency.

The V-Day Picture

WITH money advanced by prime contractors or direct by the government and while the volume of business continues without interruption, perhaps the majority of these firms can maintain their position and retire their maturing obligations in a satisfactory manner while their inventories are turning over rapidly and being converted into Accounts Receivable and Cash. What will happen when contracts are cancelled and inventories of special material are frozen? A manufacturer of this type is dependent upon moving inventories to meet his payrolls, interest charges, merchandise obligations and refunds on advance payments.

Take as an example a manufacturer of Aircraft Parts (and these are actual figures), established in

By JOHN MILLER
The Norton Co., Worcester, Mass.



early 1942. As of February 28, 1943, they have cash in the bank of approximately \$70,000, Accounts Receivable of \$12,000. Merchandise of \$162,000 or a total Current Assets of \$244,000. Their Liabilities include \$42,000 Accounts Payable, \$200,000 advances on contracts, accrued taxes and loans of \$16,000 or total liabilities of \$258,000. Capital Stock and Surplus is \$53,000. In other words, their liabilities were approximately five times the amount of their net worth. Incidentally, their profit for the year ending February 28, 1943, was \$8500 on sales of approximately a quarter of a million dollars. Here is a case where the creditors, outside of the advances on contracts, have as much invested in the business as the owners. While I have chosen this as an illustration, there are hundreds and, perhaps, thousands of concerns, some larger, some smaller, in a similar position.

Creditors Play Second Fiddle

IT is amazing, when reading the reports coming over our desks as credit men, to see the dividends that

are being paid out in the face of large liabilities for loans, advances and taxes. These are the firms we will have to watch because where their own investment is limited they do not have the same interest in protecting the investment of the supplier, and the supplier always plays second fiddle to the bank or contractor advancing money as loans.

What I have said might lead you to believe I am a "pessimist," but I hope I haven't left that impression. I have no doubt you are all thinking along the same line and are preparing to meet the situation when it arises.

The gigantic war program which last year sent production skyrocketing to unprecedented levels failed to increase corporate net income of industrial companies engaged principally in manufacturing. Reflecting heavier taxes and higher operating costs, 817 companies reported for 1942 total net income of \$2,244,143,720, a decline of 15% from the \$2,624,948,364 in the previous year. Of the 93 industries covered, only 20 were ahead of 1941. Earnings before tax deductions, in the majority of cases, well exceeded those of the preceding year, with record earnings enjoyed by a great number.

What of Government-Owned Plants

WE are probably more conscious than anyone else of the problems confronting industry because of the tremendous Government investment in plants and equipment. The question uppermost in our minds is the disposition of these production facilities and what effect will it have on the economy of the country. I can hardly believe that the Government would wish to operate these plants in competition with established business even on a partnership basis. This question has been uppermost in the minds of a great many executives and it is heartening to

quote the following from the Boston News Bureau:

"With a view to aiding Congress in developing a sound program for the disposition at the end of the war of government-owned war plants and equipment, valued at over \$12,000,000,000, industrialists have initiated studies designed to assist in the eventual sale of such properties to private enterprises. The program is said to be indicative of the determination of business men to head off any movement looking toward a partnership by government with industry in the post-war operation of such plants. Industrialists have been heartened by reports that the government intends to dispose of its war plants to private enterprise."

There does not seem to be much point in one credit man discussing with another such things as balance sheets, etc. But we read so much these days about Post War Planning that perhaps it would not be out of place to give my own ideas on what I would call "The Post War Balance Sheet."

A Look Over the Record

LET us go back and see how we stood as a nation in the Civil and World War periods. In 1860 our population was approximately 31,500,000 and our national wealth was \$16,000,000,000. In 1920 our population was 105 million and our national wealth 300 billion dollars. This means that in the Civil War period of 1860 our per capita wealth was approximately \$500, and in 1920, or the First World War period, approximately \$2900. Now take the present. In 1940 our population was 131 million and our national wealth approximately 350 billion or a per capita of \$2700. There is really no object in quoting these figures except for the purpose of striking a balance sheet. These are our assets. Now, what about our liabilities as a nation. I couldn't find any authentic figures regarding our National debt during the Civil War, but in the First World War period I find our Federal Debt in 1920 was 24 billion dollars.

Now take our national wealth in the World War period and we find this to be \$300,000,000,000, as quoted

before, and it is easy to figure a $12\frac{1}{2}$ times ratio. Taking our national wealth in 1940 as \$350,000,000,000 and our national debt in 1940 as \$43,000,000,000, we figure about $8\frac{1}{2}$ times ratio. It is expected that at the end of this World War we will have a national debt of about \$200,000,000,000, and I venture to say the ratio of debt to national wealth will be, to say the least, considerably smaller.

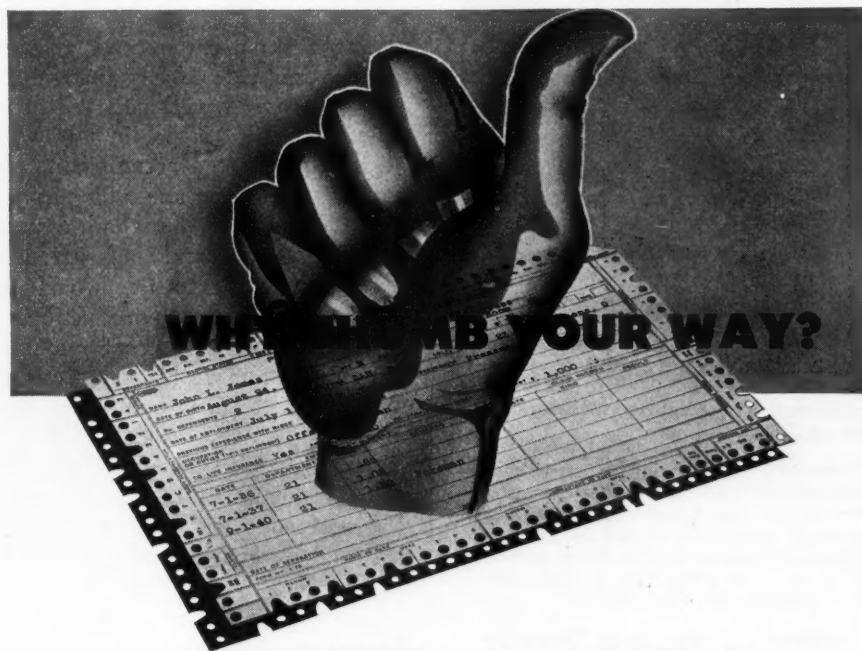
In concluding, let me sum up what I think will be our Balance Sheet at the end of this war.

Assets

Large natural resources
Our larger and most important manufacturers in sound financial condition
Good management
Widespread investment in Victory Bonds by the public
New processes and techniques
Last, but not least, the inherent common sense of the American people

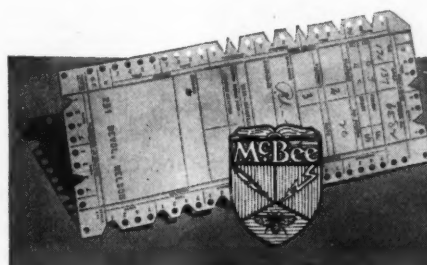
Liabilities

National debt



Never have Personnel Statistics been so important. Government requests for analyses of Personnel Records are increasing. Company interest in these files is at a peak because of their relation to the manpower needs of the armed services and essential industries.

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various types of supplies; for ex-
ample, purchases of carbon paper
help you to earn larger discounts
on ribbons, and vice versa.

BRANCH If you have branches
ORDERS or affiliates, your dis-
count rate is established by the
combined purchases of all branches
of your company, and all branches
benefit by that rate in ordering sup-
plies from their local Burroughs office.

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SUPPLIES supplies, without storage
problems, because delivery of sup-
plies is made as you need them.

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discounts for the purchase of roll
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cally all makes of business machines,
carbon paper for every need, journal
paper and other supplies. Call your
local Burroughs office or write direct
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Detroit 32, Michigan.

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SUPPLIES FOR
BUSINESS MACHINES

BURROUGHS ADDING MACHINE COMPANY

Placement of returning soldiers in
jobs
Governmental bureaucracy

Revulsion Against Bureaucracy

REGARDING the latter, I think
the public will have become so
sick of Government in business that
there will be a complete reversal of
opinion in this respect; in fact, it is
already taking place.

Again I repeat I don't want to be
considered a pessimist. There are
some intangibles which cannot be
taken into a balance sheet. Good
management is one. It cannot be
estimated in dollars and cents, but it
is always present and is represented
by results. There is not much dif-
ference between poorly managed
commercial enterprise and a badly
run government. Assuming we are
going to have a well-managed econ-
omy, then there is no limit to what
we as a people can accomplish. We
can properly amortize our national
debt, cash in on our limitless na-
tional resources and our inventive
genius and give to the world the
benefit of our mass production. I
have in mind the great potential
markets of the world such as India
and China. When one looks back
and considers the outlook our fore-
fathers had with their lack of mod-
ern conveniences, modern transporta-
tion and education, one can hardly
grasp the opportunities which lie
ahead.

Small Plants Boost Their War Production

THE July issue of Survey of Busi-
ness, a monthly publication of the
Department of Commerce, indicates
that 60% of small manufacturing
plants are now engaged in war pro-
duction. This announcement was
made after a canvass of 3,446 firms
operating in several lines of normal
production and representing all sec-
tions of the country. The sample
used in making this survey is thought
to be quite typical of the total of
nearly 62,000 smaller plants employ-
ing from one to 125 wage earners.

Nearly one-third reported that they
could at least double their present
production. Fifteen per cent said
they could arrange increases from 50
to 100 per cent and 25 per cent indi-
cated they could increase output from
1 to 49 per cent. Altogether, 71 per

cent reported they could increase out-
put. However, 63 per cent commented
that they were having difficulty get-
ting enough labor and 62 per cent
that they were faced with material
shortages.

For most of the firms the backlog
of orders was very small, only 7 per
cent being committed for six months
or more.

In reply to a question on prospects
for 1943, 27 per cent found the out-
look better than in 1942, 24 per cent
about the same, 27 per cent not as
good, 5 per cent that they would have
to close and 17 per cent could not tell.

FIRE PREVENTION IS A SAFEGUARD



The Phoenix
Insurance Company, Hartford, Conn.
1854

The Connecticut
The Insurance Co. of Hartford, Conn.
1850

FOUITABLE
Fire & Marine Insurance Company
PROVIDENCE, R.I.
1859

ATLANTIC FIRE INSURANCE CO.
Raleigh, North Carolina
THE CENTRAL STATES FIRE INS. CO.
Wichita, Kansas
GREAT EASTERN FIRE INSURANCE CO.
White Plains, N. Y.
MINNEAPOLIS F. & M. INSURANCE CO.
Minneapolis, Minn.
RELIANCE INS. CO. OF CANADA
Montreal, Canada



HARTFORD
30 Trinity Street
CHICAGO
Insurance Exchange
NEW YORK
110 William Street
SAN FRANCISCO
220 Montgomery Street



TIME TRIED & FIRE TESTED

NEWS ABOUT CREDIT MATTERS

A section devoted to
Credit Association affairs

September, 1943

Copy deadline
10th of Month

Detroit "C" Men To Give Dinner For Natl. Board

DETROIT: The members of the Detroit Association of Credit Men will hold the first monthly dinner of the fall season on Thursday evening, September 23, in the Crystal Ballroom of the Book-Cadillac Hotel. This is the evening of the first day of the fall meeting of the Board of Directors of the National Association of Credit Men which is scheduled for September 23rd, 24th and 25th at the Book-Cadillac Hotel. The dinner meeting has been scheduled by the Detroit Association as a means of getting acquainted with the visiting Directors.

It is expected that the Board meeting will occupy the time of the Directors for three full days at this fall meeting.

Membership Gain In July Largest In Past 5 Years

The July membership report, issued early in August, shows that 138 new members were registered during the month which is the largest number of members enrolled in any July in the past five years. One other important feature is that the smallest number of resignations also were reported during the month and the net increase was therefore the highest in the last five years.

The membership report gives special compliment to the Philadelphia Association on the completion of thirty-six months or three years of consecutive net membership gain. Chicago is complimented for having enrolled 53 during July.

Clevelanders Give Farewell for Sec. Hugh Wells

CLEVELAND: The members of the Cleveland Association of Credit Men gathered at the Wade Park Manor on Tuesday evening, August 31st, for a testimonial dinner in honor of Hugh Wells who on that night turned over the office of Executive Manager to Kenneth S. Thompson, formerly Executive Manager at the Wholesale Credit Association of Oakland. W. T. McWade was chairman of the special committee in charge of the farewell dinner.

New Jersey to Start Fall Season With Outing and Banquet

Newark: The New Jersey Association of Credit Men is planning a big opening dinner on September 16th at the Suburban Golf Club, Union, N. J. The plan is for the members to spend an afternoon at golf followed by dinner and an address by David A. Weir, Assistant Executive Manager of the National Association of Credit Men. Invitations have been issued to National officers and directors in the Eastern area, and acceptances have been received from several. It is the plan of the New Jersey Association to make this event a big "break out" for the fall season.

Rotarians Hear of Accomplishments of Fraud Department

William G. Betsch, Vice President of the William Iselin & Co., Inc., New York, and Chairman of the Fraud Prevention Committee, N.A.C.M., in a recent address before the Jersey City Rotary Club described the history of the fraud prevention activities of the National Association. He pointed out that the department has handled 4,187 investigations, has accounted for 1,692 convictions, and has recovered more than two million dollars for creditors. These activities have materially reduced commercial fraud and broken up credit racketeering activities. He pointed out further that the work of the Fraud Prevention Department has served as insurance against commercial fraud as the "Crooks know from experience that the Fraud Prevention Department never compromises with credit crimes."

Mr. Betsch explained that while the original fraud prevention fund was used on a nationwide clean-up process, the work is now carried on mostly in the New York market by a number of leading textile merchants and by certain other groups in other localities.

"The creed of the credit man organized to fight commercial fraud is 'an ounce of prevention is worth more than a pound of cure,'" said Mr. Betsch. "This is what is meant by fraud prevention. We fight every crime of that type. In so doing we discourage others who may contemplate similar credit schemes to defraud."

Credit Fraternity Fund Reports on Its Accomplishments

NEW YORK: A folder issued during August by the Credit Men's Fraternity, Inc., formerly known as the Credit Fraternity Fund, Inc., presents some interesting and informative facts about the operations of this organization. The title of the folder is "The Human Side of Business".

The folder states that the objects of the Association are:

1. To assist unemployed credit men in finding jobs in the shortest time possible and without cost to them or their employers.

2. To alleviate the suffering, hardship and distress caused by unemployment, through the extension of aid and assistance to deserving unemployed men and women who have been engaged in the field of credit management or assisting in that capacity.

3. To assist victims of economic depressions, changed business conditions or uncontrollable adversity.

4. To investigate and determine, insofar as possible, the causes for unemployment in the field of credit management and to take necessary and appropriate action, consistent with the purposes of this organization, to reduce such unemployment.

It also gives the very interesting information that from March 25, 1940 to July 1, 1943, it had placed 412 in credit positions out of a total number of 497 applicants. During that period 68 men had received help from the organization at a total cost of \$10,038.71. Edward F. Addiss is Chairman of the Board with Henry Meckaner as President.

Brazil Vice-Consul Speaks to Chicagoans

Chicago: V. P. Gatti, Vice Consul in Chicago of the Republic of Brazil, spoke before the regular monthly meeting of the newly organized Foreign Trade Group of the Chicago Association of Credit Men at the La Salle Hotel, Thursday noon, August 19. More members are joining the group every week and a most interesting program has been outlined by the Foreign Trade Division Committee of the Association.

Toledo "C" Men Try Hand at Prognosticators

TOLEDO: At the Credit Round Table meeting early in August the members were asked to show their skill as economic forecasters with the following results as to questions and answers:

1. Will any of the 48 States be bombed?
Yes 6 No 28
2. Will rationing be further extended to other commodities?
Yes 29 No 5
3. Will production of Consumer goods be resumed on a substantial scale?
Yes 6 No 28
4. Will the personal Federal tax rate be increased?
Yes 13 No 21
5. Will the Burma Road be retaken by the United Nations?
Yes 10 No 24
6. Will Congress adopt a Retail Sales Tax?
Yes 2 No 32
7. Will the United Nations have retaken part or all of the Philippine Islands?
Yes 4 No 30
8. Will Turkey be an active Participant on the side of the United Nations?
Yes 10 No 24
9. Will the "Little Steel" Formula be revised?
Yes 18 No 16
10. Will the United Nations be established in any part of Europe other than Russia and Italy?
Yes 25 No 9
11. Will Japan be driven entirely from the Aleutian Islands?
Yes 26 No 8
12. Will OPA, as such, be in existence?
Yes 26 No 8
13. Will there be unity and undisputed control in a French Government?
Yes 7 No 27
14. Will the Islands of Japan proper be bombed further?
Yes 24 No 10
15. Will Germany be out of the War?
Yes 5 No 29
16. Will Russia and Japan be at war against each other?
Yes No 24
17. Will Compulsory Savings be a part of the adopted plan of the U. S. Government?
Yes 3 No 21
18. Will Coffee and Sugar be removed from the ration commodity list?
Yes 25 No 9
19. Will Synthetic rubber tires be available for cars having only "A" ration coupons?
Yes 6 No 28
20. Will employment be as great?
Yes 21 No 13

Court Rules That Insurance Is Not Trust Violator

The anti-trust action by the Government against the Southeastern Underwriters Association, which charged a violation of the Sherman Anti-Trust Act through alleged "conspiracy to fix and maintain arbitrary and non-competitive rates on fire insurance," has been dismissed by Federal Judge E. Marvin Underwood in the Atlanta Federal District Court. Judge Underwood held that the business of insurance does not constitute "trade" or "commerce" within the meaning of the Sherman Act and that all insurance written in a state is covered by rules set out by the state government through its insurance department.

Our Distaff Side

MILWAUKEE: Miss Loretta M. Fischer, President of the Milwaukee Credit Women's Club, has just been elected to the office of Assistant Secretary-Treasurer of the George Ziegler Company where she has been employed for some time. Miss Fischer, in addition to being a leader in the Milwaukee Credit Women's circle, has also taken a leading part in the meetings of the credit women at National Conventions. Miss Fischer started with the Ziegler Company before her school days were finished. Her first job was that of stenographer. After completing a course at the Marquette University Night School, she was advanced to the bookkeeping department and later appointed Office Manager and now has received important recognition for her ability and resourcefulness with her election to the position of Assistant Secretary and Treasurer.

MILWAUKEE: Members of the Milwaukee Credit Women's Club held an outing at Holy Hill on Saturday, August 21st which was followed by dinner at the Fox and Hounds Inn.

Chicago: Something different in the outing line was enjoyed by the Credit Women's Club of Chicago of the Chicago Association of Credit Men Saturday, August 14, at the annual summer gathering. The members enjoyed luncheon at the Hearthstone Tea Room in Winnetka, the north shore suburbs, and the afternoon was spent on the beach and at an adjacent park. Luncheon in the early evening preceded a delightful musical program at the famous Ravinia Park.

CHICAGO: Miss Antoinette Rehrauer, one of the active members of the Credit Women's Club of the Chicago Association of Credit Men, has been honored by the appointment as Assistant Secretary of the Peerless Confection Company where she has been employed for a number of years.

Promotions

NEW YORK: Edward H. Niehaus, for several years Credit Manager of Butler Bros., New York branch, has been promoted to the position of Manager of the New York unit of this large wholesale merchandise establishment.

KANSAS CITY: J. E. Woodmansee, formerly President of the Kansas City Association of Credit Men, has just been elected President of the Richards & Conover Hardware Company of that city.

Syracuse Plans Big Program for Tri-State Meet

SYRACUSE: The Tri-State Credit Conference will be held this year at Hotel Syracuse, Syracuse, N. Y., on October 12th and 13th. This is one of the largest meetings of Credit men held during the year and draws attendance from all of the New York State Associations, from New Jersey and Eastern Pennsylvania.

The conference this year was held on Tuesday and Wednesday in place of Friday and Saturday in accordance with recommendations of the government in regard to travel. Plans are being promoted now for holding the fall meeting of the Secretaries and Executive Managers of Associations in the Eastern District on Monday, October 11th, so as to enable these managers to be present for the two-day Tri-State Conference.

Baltimore "C" Men Told of Need for Insurance Surveys

BALTIMORE: The Insurance Advisory Committee of the Baltimore Association of Credit Men has just issued a bulletin to the members of that Association pointing out the value of insurance survey especially during a war era and the importance of having these surveys kept up-to-date. The bulletin says:

"Insurable values are rarely static, this being especially true today; new hazards are constantly making their appearance, and wartime curbs and restrictions are affecting certain types of coverage. These are but a few of the things that call for the closest teamwork between assured and agent."

The Insurance Advisory Committee consists of the following men: James H. Cupit, Vice President of the Central of Baltimore, Chairman; Harry F. Ogden, President of the Fidelity & Guaranty Fire; William E. Moore, Assistant Secretary of the United States Fidelity & Guaranty; and Chase Ridgely and G. C. Swope, insurance agents.

Carney to Speak At Wis.-Mich. Meet On October 23rd

GREEN BAY: The Wisconsin and Upper Michigan Credit Conference will be held here on October 23rd. The present plan calls for the general discussion of credit subjects during the afternoon with a program highlighted with a talk by R. W. Carney, of Wichita, Kansas, in the evening. It will be remembered that Mr. Carney was one of the principal speakers at the War Credit Congress in St. Louis. His general theme will be about the same as for his talk at the St. Louis Convention "Industry Goes to War". It is expected that this conference will draw a large attendance from the Wisconsin and upper Michigan Associations.

Chicago A.C.M. Issues Directory Of Membership

Chicago: The mid-summer issue of "Credit News" published by the Chicago Association of Credit Men was in the form of a new directory of the Association containing 64 pages and a striking cover in colors with the title, "Who's Who in Credit and Finance in the Chicago Region." The first part of the directory is devoted to the names of the officers and directors of the Association, the Credit Women's Club of Chicago, standing committees and members of the Industry Groups and members. The second part contains the names of all company members, their products, credit manager, address and telephone number. It is the first directory issued by the Association in three years.

Thompson Is Honored By Oakland Herd At Good-bye Party

OAKLAND: Kenneth S. Thompson, who retired on September 1st as Executive Manager of the Wholesalers Credit Association of Oakland to take a similar position with the Cleveland Association, was voted a life membership in the Oakland Herd. A silver tea and coffee service was presented as a token of friendship and esteem for Mr. and Mrs. Thompson by members of the Oakland Herd. Owen S. Dibbern, formerly Manager, Western Division, who is now serving as Credit Manager for Paraffine Companies in San Francisco, was also enrolled as an active member of the Oakland Herd.

Boston Conference to Feature V-Day Era

BOSTON: "Planning for Business in the Post-War Era" is the subject of the 15th annual conference on Distribution which will be held on October 18th and 19th at Hotel Statler in Boston. The program is designed to give a general summary of the plans being pushed by various business organizations to meet the problems immediately following the end of the war. The sessions of the conference will be open to all who are interested in following economic trends in business.

POSITION WANTED: Age 47, married. 18 years' experience as Credit Manager. 14 years with present connection, as district Credit Manager over five branches in Wholesale Plumbing and Heating Business. Necessary to make change for my wife's health. Address Box 9-B, Credit and Financial Management.

Position Wanted

Executive, Credit-Office Manager, Assistant Treasurer, aggressive business builder, rich background of experience, versatile, initiative, well developed intuition. Analytical, loyal, accustomed to assuming responsibilities. No objection to defense positions, with positive postwar opportunities. Salary, secondary to development and permanency. Age, past 50, with perfect health. Any location. Address Box 9-A, Credit and Financial Management.

Section 722 Relief Filing Date, September 16th

Treasurers and financial officers are reminded that September 16th is the date set for filing claims for relief under Section 722 of the Internal Revenue Code on Adjustment of Excess Profit Tax. The regulations covering this general subject may be obtained from the Federal printer by asking for Title No. 26, Internal Revenue Code. The Commissioner of Internal Revenue has ruled that applications filed by the above date may be supplemented with detailed information at a later date.

Government Regulations

Fuel Administrator Ickes has announced the appointment of Producers Advisory Boards in 22 production districts. The new boards are established to furnish information and advise on production and distribution of coal in their area.

Those interested in price schedules should write to the Office of War Information for a copy of a pamphlet entitled "Subject Matter Index" giving a digest of interpretation of price schedules, regulations and orders issued up to June 30th. The Index was compiled for use of the OPA staff but is being made generally available to all interested in the OPA price regulation.

Under an amendment to Regulation 19 issued August 12th, farmers need only submit a certificate of need at a repair shop to get priority on the use of its equipment for repairing farm machinery. The farmer's order, when supported by his certificate of need, will be considered the same as an order rated AA-5. This action is part of the program worked out by the Office of Civilian Requirements to assist farmers in obtaining the supplies they need to increase food production. Farmers are also the beneficiaries under a plan outlined by J. Philip Boyd, Director of the War Production Board's Lumber and Lumber Products Division which makes available soft wood lumber for essential farm needs.

Credit Manual

for

1944 Will Be

Ready

Late in October

Order Now

Omahans Join in "Pot Luck" Picnic

OMAHA: Members of the Omaha Association of Credit Men gathered for their annual outing and get-together at Peony Park on August 21st. The picnic dinner was arranged in the style of an old-fashioned "Smorgasbord" with each family bringing a covered dish. Coffee, roasting ears and ice cream were supplied by the committee. The affair was under the direction of H. R. Hufford, Chairman of the Goodfellowship Committee, with Miss Henrietta Lamb as able assistant.

KANSAS CITY: Members of the Kansas City Association of Credit Men held their annual picnic and outing at the Hillcrest Country Club on August 19th. The program was composed of games of various sorts followed by dinner at 7 P. M. A large number of prizes were presented as gifts for members.

WICHITA: The Association's annual picnic was held on August 17th at Deal's Lake Lodge and was attended by a large crowd of members.

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of Official NACM

PROTECTION



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War industries and vital distributive and transportation facilities must be protected against loss by fire and other property destroying hazards. Insure with strong companies.

MILLERS NATIONAL
Insurance Company

ILLINOIS FIRE
Insurance Company

HOME OFFICE: CHICAGO

War Department Issues Manual on Termination

(Continued from Page 27)

to otherwise protect the Government's financial interests.

"The results obtained under either the inventory or total cost methods described above would represent the indicated equitable settlement. This would be exclusive of subcontractors' claims and costs incurred after date of termination inasmuch as these costs are settled separately. In negotiating the rate the contracting officer will undoubtedly take into consideration the nature of the work represented by the uncompleted portion of the contract.

"In certain cases the contractors' data may clearly indicate a loss. Present War Department Procurement Regulations provide that the contractor shall receive full reimbursement for his costs applicable to the uncompleted portion. The settlement must therefore take into consideration the loss incurred on the completed units. In the total cost method this adjustment is made by converting the amount of the payments made for completed units in the higher indicated cost and thus reducing the amount of the indicated equitable settlement by the loss on the completed units.

Determination of Allowable Costs

"One of the most important aspects of the proposed settlement has to do with the determination of allowable costs. This problem exists in a similar form whether the claim is presented on either a total cost or an inventory basis and is equally applicable to prime and subcontracts. It concerns equally the contractor who prepares the proposed settlement and the accountants who review or otherwise examine the settlement data.

"It will be well to point out that the inclusions are properly more liberal in certain respects than is the case with cost-plus-a-fixed-fee contracts. This is logical because of the greater risk which the contractor assumes under a fixed-price contract as compared to the situation where there is a guaranteed fee above his costs.

It should also be noted that T.D. 5000, which is incorporated in many cost-plus-a-fixed-fee contracts, is inapplicable in the case of fixed-price terminations.

"The general approach to the problem of cost determination is well stated in the opening paragraph of the chapter in the Manual dealing with this problem, which reads as follows:

"The determination of allowable costs is placed in the hands of the contracting officer in accordance with the provisions of the Article. These provisions permit the allowance of those costs incurred which are incident to and necessary for the performance of the contract, are reasonable in amount and are stated in accordance with recognized accounting practices construed and applied in such manner as in the judgment of the contracting officer will carry out the purpose of the Article. It is not intended that the contractor shall be denied compensation for any element of cost fairly allowable under the general principles set forth in the Article, because of the failure specifically to enumerate any such element in each Article or herein."

"Other sections of special interest are as follows:

"(1) Depreciation

"So far as found by the contracting officer properly to be allocated to the contract, there may be included as an element of cost, in accordance with recognized accounting practices, a reasonable allowance for depreciation at appropriate rates based on wear and tear of machinery and equipment and similar facilities, including obsolescence due to such progress in the arts and other factors as are ordinarily given consideration in such rates."

"(2) Special Tooling

"Costs of special tooling designed, purchased, or produced by the contractor (including but not limited to costs of special tooling of the type of jigs, dies, fixtures, patterns and similar items) may be allowed to the extent that the contract-

ing officer finds that such costs, in accordance with recognized accounting practices, are properly allocable to the contract."

"(3) General Obsolescence

"If the contractor has claimed reimbursement for the whole or any part of the cost of any machinery, equipment or other facility above, because of the loss of useful value occurring during the performance of the contract or arising from the termination of the contract for the convenience of the Government, such claims, determined in accordance with recognized accounting practices, may be allowed to the extent that the contracting officer finds that such facility was acquired for the performance of the contract, or the contract and other contracts, and the loss of useful value has in fact clearly occurred and is properly allocable to the terminated contract and provided that the contractor agrees to protect and does protect the interest of the Government, in such cases by transfer of title to the Government, by stand-by agreement or any other manner judged to be appropriate by the contracting officer."

"(4) Advertising

"Advertising expense will not be allowed as a direct charge but a proper proportion of institutional advertising expense may be included."

"(5) Accounting

"Accounting, legal, clerical and other expenses in connection with the discontinuance and termination of the contract and subcontracts thereto, other than in connection with litigation of claims against the Government, may be allowed."

Inventory Problem

"One of the most serious problems arising out of contract terminations is the problem of inventories. Unless disposition of the inventories

Business Thermometer

Wholesalers' Sales, Inventories, and Credits,

June 1943

can be made promptly the contractor may, because of lack of space in his plant, be prevented from proceeding with his peacetime operations. On the other hand the Government must take such steps as will protect its interests, and avoid a situation where goods may be disposed of at a fraction of their value.

"To a major extent the solution probably lies in the administrative area but the accounting aspects cannot be overlooked since the values obtained or agreed upon in making disposition are deducted from the gross amount of the proposed settlement. The key procedures appear to be somewhat as follows:

"(1) A submission as quickly as possible of an accurate inventory by the contractor showing units, cost (or estimated cost), and the contractor's best offer.

"(2) Review by contracting officer and his staff of the inventory submitted to determine that the proposed prices are fair.

"(3) Actual disposition based on above decisions in accordance with the contracting officer's approval.

"(4) Incorporation of all transactions accurately as deductions from the contractor's proposed settlement.

"The accountants area of particular interest extends to the accuracy with which the inventories are stated, including inventory pricing when a priced inventory is presented, and determining that all credits are included in the proposed settlement for items sold to third parties, retained by the contractor or scrapped.

Audit of Prime and Subcontractor Settlements

"THE terminations of contracts and the proposed settlements in connection with them involve on the one hand the thousands of prime contracts to which the Government is directly a party and on the other hand the several tiers of subcontractors and vendors which may exist below the prime contractor. As a result there are two rather distinct types of problems which may confront an individual prime or subcontractor. The prime contractor has his proposed settlement to the Government and at the same time the costs presented by his subcontractors which he will use as a basis for working out settlements with them—settlements which will then become part

EN Sales of 2,676 wholesalers representing most kinds of business throughout the country were up 9 per cent in June 1943 over June 1942, according to an announcement released today by J. C. Capt, Director of the Census. The first half of 1943 revealed sales 5 per cent higher than those for the first six months of 1942, and dollar volume gained 6 per cent in June compared with the preceding month this year.

This monthly study is conducted jointly by the National Association of Credit Men and the Bureau of the Census. Detailed figures are presented in the following tables in summary for the United States and, insofar as the data permit without disclosing individual operations, by geographic divisions.

Wholesalers reported sales gains this June over June 1942 for 24 of the 35 trades shown separately in this survey. Among the noteworthy increases registered, wholesalers of clothing and furnishings, except shoes, recorded a gain of 55 per cent; jewelry, 51 per cent; dry goods, 41 per cent; wines and liquors, 38 per cent; fresh fruits and vegetables, 37 per cent; dairy and poultry products, 36 per cent; optical goods, 34 per cent; chemicals, 33 per cent; and confectionery, 28 per cent. More moderate advances were noted for wholesalers of specialty lines of groceries and foods, 25 per cent; full-line wholesalers of groceries and foods, 24 per cent; beer and voluntary-group wholesalers of groceries and foods, each 23 per cent; leather and shoe findings, 17 per cent; shoes and other footwear, 13 per cent; and metals and tobacco and its products, each 12 per cent. Sales remained

of his own total settlement with the Government. The situation of the first tier subcontractor is similar except that his own costs and settlements with his subcontractors will be presented to the prime contractors.

virtually unchanged from last year's levels for general hardware, meats and meat products, and hardware industrial supplies. Decreases were reported for wholesalers of paints and varnishes, 3 per cent; furniture and house furnishings, 4 per cent; machinery, equipment, and supplies (except electrical), 9 per cent; plumbing and heating supplies, 17 per cent; and electrical goods, 23 per cent.

Inventories, in terms of dollars based on cost values, at the close of June 1943 were 25 per cent lower than in June 1942, but only slightly (3 per cent) below the level of May this year.

The stock-sales ratio for wholesalers at the end of this June was 99 as against 243 last June. With sales for May 1943. Of the 32 trades for which stock-sales ratios are shown, one (petroleum) showed an increase, June 1943, compared with June 1942. Wholesalers of automotive supplies, with sales up 22 per cent and inventories down 18 per cent, disclosed a stock-sales ratio of 163 for this June as against 243 last June. With sales up 19 per cent and inventories up 6 per cent, wholesalers of drugs and sundries revealed a ratio of 184 for June 1943 and 222 for June 1942. Wholesalers of lumber and building materials noted a 5 per cent decrease in sales and an 18 per cent decrease in inventories, with a stock-sales ratio of 100 for June 1943 and 112 for last June. Paper and its products, with 17 per cent more dollar volume and 12 per cent less inventory, had a June 1943 stock-sales ratio of 127 and a June 1942 ratio of 169.

Collections on accounts receivable were 24 per cent higher for this June than for June 1942. Compared with May, June 1943 collections were 3 per cent larger. The collection ratio for June 1943 was 107; for June 1942, 86; and for May 1943, 104. Accounts receivable were 17 per cent less as of June 1, 1943, than as of June 1, 1942; and at the beginning of this June were slightly (2 per cent) less than as of May 1, 1943.

Wholesalers' Sales and Inventories—June 1943

Kind of Business	Sales—Current Month				Sales—Year-to-Date		Inventory—End-of-Month (At Cost)				Stock-Sales Ratios		
	Number of firms reporting sales	Percent Change		June 1943 (Add 000)	Percent change from 6 Mos. 1943	Six Months 1943 (Add 000)	Number of firms reporting stocks	Percent Change		June 30, 1943 (Add 000)	June 1943	June 1942	May 1943
		June 1943 vs. June 1942	June 1943 vs. May 1943					June 1943 vs. June 1942	June 1943 vs. May 1943				
United States	2,676	+ 9	+ 6	\$288,833	+ 5	\$2,108,835	1,582	-25	- 3	\$162,146	99	139	108
Automotive Supplies	201	+22	+ 9	4,884	+ 4	29,448	105	-18	- 1	4,038	163	243	179
Chemicals (industrial)	19	+33	+17	2,329	+ 7	13,516	16	-12	+ 4	1,152	55	85	62
Paints and Varnishes	62	- 3	- 4	3,534	+ 2	21,145	16	-12	- 3	1,301	151	108	164
Clothing and Furnishings, except Shoes	46	+55	- 3	3,643	+ 9	23,661	22	-41	- 4	928	80	253	96
Shoes and Other Footwear	29	+13	+29	16,749	+ 2	100,375	16	-40	- 1	4,259	56	115	75
Coal	6	+12	-30	1,001	+38	8,052	b	b	b	b	b	b	b
Drugs and Sundries (liquor excluded)	119	+19	+ 6	23,040	+17	153,524	31	+ 6	- 1	8,081	184	222	206
Dry Goods	92	+41	+11	19,003	+26	117,732	49	-37	- 3	13,966	118	249	133
Electrical Goods	323	-23	- 1	24,443	-25	161,561	281	-49	c	14,439	63	94	62
Dairy and Poultry Products	28	+36	+11	1,823	+27	16,819	16	+ 4	+21	173	29	32	26
Fresh Fruits and Vegetables	82	+37	+ 7	5,379	+35	34,063	56	-24	-15	405	11	19	13
Farm Supplies	8	+31	-35	419	+31	9,348	b	b	b	b	b	b	b
Furniture and House Furnishings	55	- 4	+ 4	5,559	-11	45,723	28	-57	-11	2,744	66	145	81
Groceries and Foods, except Farm Products	553	+23	+10	56,171	+15	408,218	340	-12	- 2	37,484	111	154	122
Full-line Wholesalers d	268	+24	+ 8	22,339	+18	162,326	163	-16	c	16,439	117	173	127
Voluntary-group Wholesalers	125	+23	+18	19,611	+ 8	137,155	87	-11	- 4	14,057	128	176	158
Retailer-cooperative Warehouses	16	+18	+19	4,358	+ 6	25,789	10	-18	- 2	2,521	103	137	123
Specialty Lines	144	+25	- 1	9,863	+23	82,948	80	+ 2	c	5,244	75	89	70
Confectionery	44	+28	+ 4	786	+45	6,767	27	-29	- 6	244	46	82	61
Meats and Meat Products	84	c	- 1	30,165	+ 7	214,846	52	-20	-14	5,858	40	50	47
Beer	62	+23	-10	2,016	+31	10,970	45	-39	-30	233	14	29	22
Wines and Liquors	22	+38	+ 8	5,161	+47	52,387	16	c	- 2	6,998	144	202	162
Liquor Department of Other Trades e	35	- 3	- 9	4,992	+26	43,221	6	-58	-48	324	58	336	218
Total Hardware Group	346	- 3	+ 5	41,766	- 8	273,886	222	-27	- 3	39,797	145	188	165
General Hardware	137	c	+ 6	25,907	-10	158,798	89	-31	- 3	28,021	155	217	167
Industrial Supplies	107	- 1	+ 4	10,205	+ 3	79,120	60	-12	- 3	8,814	132	142	138
Plumbing and Heating Supplies	102	-17	+ 4	5,654	-16	35,968	64	-29	- 1	2,962	113	121	114
Jewelry	28	+51	- 4	1,514	+20	13,075	17	-16	-14	1,406	143	284	155
Optical Goods	17	+34	+ 6	334	+15	1,974	8	+ 7	+ 4	117	89	111	94
Lumber and Building Materials	51	- 5	+10	3,755	- 8	26,974	36	-18	+ 1	2,514	100	112	113
Machinery, Equipment and Supplies, except Electrical	64	- 9	+ 7	3,590	- 7	21,828	44	-23	- 3	3,247	127	154	141
Surgical Equipment and Supplies	19	+52	+ 6	1,211	+24	8,199	11	+20	- 4	795	78	106	87
Metals	26	+12	+ 2	3,284	+10	32,762	10	+ 5	+ 1	3,152	165	174	162
Paper and Its Products	86	+17	+ 6	6,050	- 5	42,014	43	-12	- 1	3,920	127	169	138
Petroleum	8	-21	c	576	+ 4	106,292	5	+ 3	+ 4	355	74	60	69
Tobacco and Its Products	125	+12	+11	13,120	+15	93,718	40	- 6	- 2	1,751	40	50	45
Leather and Shoe Findings	17	+17	+10	456	+15	2,868	b	b	b	b	b	b	b
Miscellaneous	19	c	-11	2,072	+ 6	13,869	24	-14	- 2	2,465	150	155	133

a These stock-sales ratios are percentages obtained by dividing stocks by sales for an identical group of firms.
d Not affiliated with voluntary or cooperative groups.

b Insufficient data to show separately.

c Less than 0.5 percent.

e Chiefly of the wholesale drug trade.

Wholesalers' Accounts Receivable and Collections—June 1943

Kind of Business	Collection Percentages ^a				Accounts Receivable		
	Number of firms reporting	June 1943	June 1942	May 1943	Percent change		As of June 1, 1943 (Add 000)
					June 1943 vs. June 1942	June 1943 vs. May 1943	
United States	2,087	107	86	104	-17	- 2	\$210,191
Automotive Supplies	157	89	77	89	- 3	- 3	3,476
Chemicals (industrial)	18	84	83	68	+21	+10	2,378
Paints and Varnishes	29	64	53	69	-14	+ 1	1,522
Clothing and Furnishings, except Shoes	44	88	59	87	-10	b	4,867
Shoes and Other Footwear	26	96	64	75	-25	-16	8,010
Coal	6	89	83	93	+19	- 1	1,331
Drugs and Sundries (liquor excluded)	47	104	86	101	- 3	- 3	6,406
Dry Goods	82	78	56	71	- 8	- 4	22,277
Electrical Goods	296	74	72	77	-27	- 4	32,087
Dairy and Poultry Products	16	229	156	221	- 2	+ 5	413
Fresh Fruits and Vegetables	63	189	156	169	+12	- 3	1,679
Farm Supplies	5	102	88	90	-16	-51	728
Furniture and House Furnishings	43	88	60	78	-40	- 2	5,763
Groceries and Foods, except Farm Products	418	156	116	144	-10	- 2	28,676
Full-line Wholesalers c	194	144	107	138	- 9	- 1	12,331
Voluntary-group Wholesalers	99	176	124	153	-17	- 4	8,539
Retailer-cooperative Warehouses	14	259	199	208	- 5	- 4	1,488
Specialty Lines	111	128	102	128	- 2	- 2	6,318
Confectionery	25	119	82	118	-15	-11	427
Meats and Meat Products	78	161	147	181	-14	+10	19,870
Beer	25	154	113	141	- 8	+ 8	389
Wines and Liquors	19	167	102	146	-13	-11	2,975
Total Hardware Group	324	92	74	90	-25	- 4	40,449
General Hardware	126	97	72	84	-30	- 4	23,723
Industrial Supplies	99	88	82	89	- 9	- 1	10,082
Plumbing and Heating Supplies	99	78	74	78	-13	- 6	6,444
Jewelry	22	66	40	67	-13	+ 2	1,434
Optical Goods	14	105	81	101	- 2	+ 4	248
Lumber and Building Materials	48	100	85	96	-32	- 7	3,215
Machinery, Equipment and Supplies, except Electrical	51	79	63	77	-19	+ 6	3,231
Surgical Equipment and Supplies	18	72	57	65	+19	+22	1,461
Metals	24	119	119	128	+12	+ 4	2,735
Paper and Its Products	73	86	74	87	- 8	+ 3	5,671
Petroleum	6	134	113	133	-37	-11	362
Tobacco and Its Products	78	159	128	149	- 7	+ 2	5,783
Leather and Shoe Findings	15	91	63	82	-22	- 6	394
Miscellaneous	17	93	80	93	b	- 3	1,741

a Collection percentages are obtained by dividing the collections by accounts receivable for an identical group of firms.
b Less than 0.5 percent.